Malibu Boats, Inc.
Form 10-Q
February 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
Commission file number: 001-36290

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Class A Common Stock, par value $0.01, outstanding as of February 8, 2018: 20,509,654 shares

Class B Common Stock, par value $0.01, outstanding as of February 8, 2018: 17 shares

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Part I - Financial Information

Item 1. Financial Statements

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net sales	$ 114,373	$ 67,661	$ 217,914	$ 129,682
Cost of sales	86,857	49,848	167,475	96,046
Gross profit	27,516	17,813	50,439	33,636
Operating expenses:				
Selling and marketing	3,122	2,150	6,711	4,573
General and administrative	7,435	3,453	14,509	9,517
Amortization	1,304	549	2,612	1,099
Operating income	15,655	11,661	26,607	18,447
Other income (expense), net:				
Other income	30,333	58	27,736	75
Interest expense	(1,014)	(37)	(3,213)	(467)
Other income (expense), net	29,319	21	24,523	(392)
Income before provision for income taxes	44,974	11,682	51,130	18,055
Provision for income taxes	50,558	3,945	50,300	6,092
Net (loss) income	(5,584)	7,737	830	11,963
Net income attributable to non-controlling interest	799	836	1,328	1,282
Net (loss) income attributable to Malibu Boats, Inc.	$ (6,383)	$ 6,901	$ (498)	$ 10,681
Comprehensive income:				
Net (loss) income	$ (5,584)	$ 7,737	$ 830	$ 11,963
Other comprehensive (loss) income, net of tax:				
Change in cumulative translation adjustment	(66)	(846)	234	(489)
Other comprehensive (loss) income, net of tax	(66)	(846)	234	(489)
Comprehensive (loss) income, net of tax	(5,650)	6,891	1,064	11,474
Less: comprehensive income attributable to non-controlling interest, net of tax	806	746	1,360	1,230
Comprehensive (loss) income attributable to Malibu Boats, Inc., net of tax	$ (6,456)	$ 6,145	$ (296)	$ 10,244
Weighted average shares outstanding used in computing net (loss) income per share:				
Basic	20,429,627	17,786,122	19,804,192	17,760,256
Diluted	20,429,627	17,842,138	19,804,192	17,817,842
Net (loss) income available to Class A Common Stock per share:				
Basic	$ (0.31)	$ 0.39	$ (0.03)	$ 0.60
Diluted	$ (0.31)	$ 0.39	$ (0.03)	$ 0.60

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

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

	December 31, 2017	June 30, 2017
Assets		
Current assets		
Cash	$ 36,731	$ 32,822
Trade receivables, net	9,943	9,846
Inventories, net	44,273	23,835
Prepaid expenses and other current assets	4,539	2,470
Income tax receivable	1,065	1,111
Total current assets	96,551	70,084
Property, plant and equipment, net	39,232	24,123
Goodwill	32,591	12,692
Other intangible assets, net	96,926	9,597
Deferred tax assets	62,801	107,088
Other assets	282	79
Total assets	$ 328,383	$ 223,663
Liabilities		
Current liabilities		
Accounts payable	$ 21,264	$ 12,722
Accrued expenses	30,699	21,616
Income taxes and tax distribution payable	534	515
Payable pursuant to tax receivable agreement, current portion	4,323	4,332
Total current liabilities	56,820	39,185
Deferred tax liabilities	522	552
Payable pursuant to tax receivable agreement, less current portion	51,525	77,959
Long-term debt	108,301	53,403
Other long-term liabilities	630	328
Total liabilities	217,798	171,427
Commitments and contingencies (See Note 14)		
Stockholders' Equity		
Class A Common Stock, par value $0.01 per share, 100,000,000 shares authorized; 20,509,103 shares issued and outstanding as of December 31, 2017; 17,937,687 issued and outstanding as of June 30, 2017	204	179
Class B Common Stock, par value $0.01 per share, 25,000,000 shares authorized; 17 shares issued and outstanding as of December 31, 2017; 19 shares issued and outstanding as of June 30, 2017	—	—
Preferred Stock, par value $0.01 per share; 25,000,000 shares authorized; no shares issued and outstanding as of December 31, 2017 and June 30, 2017	—	—
Additional paid in capital	106,996	48,328
Accumulated other comprehensive loss	(1,129)	(1,363)
Accumulated (deficit) earnings	(380)	151
Total stockholders' equity attributable to Malibu Boats, Inc.	105,691	47,295
Non-controlling interest	4,894	4,941
Total stockholders’ equity	110,585	52,236

Total liabilities and stockholders' equity	$ 328,383	$ 223,663

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

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

	Class A Common Stock		Class B Common Stock		Additional Paid In Capital	Accumulated Other Comprehensive Loss	Accumulated (Deficit) Earnings	Non-controlling Interest in LLC	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at June 30, 2017	17,938	$ 179	19	$ —	$ 48,328	$ (1,363)	$ 151	$ 4,941	$ 52,236
Net (loss) income	—	—	—	—	—	—	(498)	1,328	830
Stock based compensation, net of withholding taxes on vested equity awards	49	1	—	—	307	—	—	—	308
Issuances of equity for services	4	—	—	—	725	—	—	—	725
Issuance of Class A common stock for Acquisition	39	—	—	—	1,000	—	—	—	1,000
Issuance of Class A common stock for offerings, net of underwriting discounts	2,300	23	—	—	55,294	—	—	—	55,317
Capitalized offering costs	—	—	—	—	(650)	—	—	—	(650)
Increase in payable pursuant to the tax receivable agreement	—	—	—	—	(1,259)	—	—	—	(1,259)
Increase in deferred tax asset from step-up in tax basis	—	—	—	—	2,513	—	—	—	2,513
Exchange of LLC Units for Class A Common Stock	179	1	—	—	738	—	—	(738)	1
Cancellation of Class B Common Stock	—	—	(2)	—	—	—	—	—	—
Distributions to LLC Unit holders	—	—	—	—	—	—	(33)	(654)	(687)
Foreign currency translation adjustment	—	—	—	—	—	234	—	17	251
Balance at December 31, 2017	20,509	$ 204	17	$ —	$ 106,996	$ (1,129)	$ (380)	$ 4,894	$ 110,585

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

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

	Six Months Ended December 31,	
	2017	2016
Operating activities:		
Net income	$830	$11,963
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash compensation expense	850	745
Non-cash compensation to directors	404	377
Depreciation	3,417	1,994
Amortization of intangible assets	2,612	1,099
Gain on sale-leaseback transaction	(5)	(6)
Amortization of deferred financing costs	1,046	123
Change in fair value of interest rate swap	(203)	(825)
Deferred income taxes	46,764	2,474
Non-cash litigation payable	—	(1,330)
Adjustment to tax receivable agreement liability	(27,702)	—
Gain on sale of equipment	—	(16)
Change in operating assets and liabilities, net of effects of acquisitions:		
Trade receivables	1,315	6,570
Inventories	(6,037)	(3,140)
Prepaid expenses and other assets	(512)	726
Accounts payable	1,954	(2,364)
Income taxes receivable and payable	65	1,630
Accrued expenses and other liabilities	2,227	2,227
Net cash provided by operating activities	27,025	22,247
Investing activities:		
Purchases of property, plant and equipment	(4,923)	(5,443)
Proceeds from sale or disposal of property, plant and equipment	—	16
Payment for acquisition, net of cash acquired	(125,552)	—
Net cash used in investing activities	(130,475)	(5,427)
Financing activities:		
Principal payments on long-term borrowings	(50,000)	(16,117)
Proceeds from long-term borrowings	105,000	—
Payment of deferred financing costs	(1,148)	—
Proceeds from issuance of Class A Common Stock in offering, net of underwriting discounts	55,317	—
Payments of costs directly associated with offering	(650)	—
Cash paid for withholding taxes on vested restricted stock	(543)	(167)
Distributions to LLC Unit holders	(636)	(621)
Net cash provided by (used in) financing activities	107,340	(16,905)
Effect of exchange rate changes on cash	19	73
Changes in cash	3,909	(12)
Cash—Beginning of period	32,822	25,921
Cash—End of period	$36,731	$25,909
Supplemental cash flow information:		
Cash paid for interest	$861	$1,162

Cash paid for income taxes	2,740	1,650
Non-cash investing and financing activities:		
Establishment of deferred tax assets from step-up in tax basis	2,513	383
Establishment of amounts payable under tax receivable agreements	1,259	335
Exchange of LLC Units by LLC Unit holders for Class A common stock	738	144
Tax distributions payable to non-controlling LLC Unit holders	361	469
Capital expenditures in accounts payable	659	415

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

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MALIBU BOATS, INC. AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in thousands, except per unit and per share data)

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

Organization

Malibu Boats, Inc. (together with its subsidiaries, the “Company” or “Malibu”), a Delaware corporation formed on November 1, 2013, is the sole managing member of Malibu Boats Holdings, LLC, a Delaware limited liability company (the “LLC”). The Company operates and controls all of the LLC's business and affairs and, therefore, pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, Consolidation, consolidates the financial results of the LLC and its subsidiaries, and records a non-controlling interest for the economic interest in the Company held by the non-controlling holders of units in the LLC (“LLC Units”). Refer to Note 2. Malibu Boats Holdings, LLC was formed in 2006 with the acquisition by an investor group, including affiliates of Black Canyon Capital LLC, Horizon Holdings, LLC and then-current management. The LLC is engaged in the design, engineering, manufacturing, marketing and sale of a diverse range of innovative, high-quality recreational powerboats sold through a world-wide network of independent dealers. On July 6, 2017, the Company acquired all the outstanding units of Cobalt Boats, LLC (“Cobalt”) further expanding the Company's product offering across a broader segment of the recreational boating industry including performance sport boats, sterndrive and outboard boats. As a result of the acquisition, the Company also consolidates the financial results of Cobalt. Refer to Note 3. The Company reports its results of operations under three reportable segments: Malibu U.S., Malibu Australia, and Cobalt, based on their boat manufacturing operations.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim condensed financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and disclosures of results of operations, financial position and changes in cash flow in conformity with GAAP for complete financial statements. Such statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Malibu Boats, Inc. and subsidiaries for the year ended June 30, 2017, included in the Company's Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments considered necessary to present fairly the Company’s financial position at December 31, 2017, and the results of its operations for the six month periods ended December 31, 2017 and December 31, 2016, and its cash flows for the six month periods ended December 31, 2017 and December 31, 2016. Operating results for the six months ended December 31, 2017, are not necessarily indicative of the results that may be expected for the full year ending June 30, 2018. Certain reclassifications have been made to the prior period presentation to conform to the current period presentation. Units and shares are presented as whole numbers while all dollar amounts are presented in thousands, unless otherwise noted.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the operations and accounts of the Company and all subsidiaries thereof. All intercompany balances and transactions have been eliminated upon consolidation.

Offering and Prepayment of Term Loans

On August 14, 2017, the Company completed an offering of 2,300,000 shares of Class A Common Stock that were issued and sold by the Company at a price to the public of $24.05 per share (the "Offering"). This included 300,000 shares issued and sold by the Company pursuant to the option granted to the underwriters, which was exercised concurrently with the closing of the Offering.

The aggregate gross proceeds from the Offering was $58,075. Of these proceeds, the Company received $55,317 after deducting $2,758 in underwriting discounts and commissions. Of the net proceeds received from the Offering, $50,000 was used to repay amounts outstanding on its loans under the Credit Agreement (defined in Note 8). The remaining net proceeds were used for general working capital purposes. The Company exercised its option to apply the prepayment to principal installments through December 31, 2021, and a portion of principal installments due on

March 31, 2022. Accordingly, no principal payments are required under the Credit Agreement until March 31, 2022, and as such, all borrowings as of December 31, 2017 and June 30, 2017, are reflected as noncurrent.
Capitalized offering costs directly attributable to the Offering of $650 were netted against the proceeds and, as such, were reclassified into additional paid in capital.

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Immaterial Correction of an Error in Prior Periods

During the second quarter of fiscal 2018, the Company identified an error related to an understatement of the non-controlling interest held by LLC Unit holders in the LLC, an overstatement to accumulated comprehensive loss, and an overstatement of additional paid in capital. When LLC units were exchanged for Class A Common Stock of Malibu Boats, Inc. during the quarters ended December 31, 2016 and March 31, 2017, the Company inadvertently reduced the non-controlling interest by the fair value of the Malibu Boats, Inc. Class A Common Stock (the fair value received) rather than the carrying value of the LLC units that were exchanged. In addition, the Company inadvertently did not allocate foreign currency translation adjustments ratably between Malibu Boats, Inc. and the non-controlling interest based on their respective pro-rata ownership interests in the LLC from October 2014 (the date the LLC acquired their Australian subsidiary) through September 30, 2017. In accordance with FASB ASC Topic 250, Accounting Changes and Error Corrections, the Company evaluated the materiality of the error from quantitative and qualitative perspectives, and concluded that the error was immaterial to the Company's prior period interim and annual consolidated financial statements. Since the revision was not material to any prior period interim or annual consolidated financial statements, no amendments to previously filed interim or annual periodic reports are required. Consequently, the Company revised the historical consolidated financial information presented herein and will reflect the same revisions in its forthcoming fiscal 2018 Form 10-K.

For the fiscal year ended June 30, 2017, the immaterial error correction resulted in an increase to the non-controlling interest of $1,869, a decrease to accumulated other comprehensive loss of $639, and a decrease to additional paid in capital of $2,508, within stockholders' equity on the unaudited condensed consolidated balance sheet and within the statement of stockholders' equity. There was no change in total stockholders' equity for the fiscal year ended June 30, 2017.

Recent Accounting Pronouncements

In May 2014, the FASB and International Accounting Standards Board jointly issued a final standard on revenue recognition, Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This standard will supersede most current revenue recognition guidance. Under the new standard, entities are required to identify the contract with a customer; identify the separate performance obligations in the contract; determine the transaction price; allocate the transaction price to the separate performance obligations in the contract; and recognize the appropriate amount of revenue when (or as) the entity satisfies each performance obligation. The standard is effective for fiscal years beginning after December 15, 2017. Entities have the option of using either the retrospective or cumulative effect transition method. The Company has completed a preliminary assessment of the impact of ASU 2014-09 and does not anticipate the impact will be significant to the Company's consolidated financial statements, accounting policies or processes. The Company is currently assessing the potential impact of this ASU on its footnote disclosures. The Company expects to adopt ASU 2014-09 for the Company's fiscal year beginning July 1, 2018, and expects to adopt the guidance using the modified retrospective approach.

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years with early adoption permitted. This guidance provides specific classification of how certain cash receipts and cash payments are presented in the statement of cash flows. The ASU should be applied using a retrospective transition method. If it is impracticable to apply the amendments retrospectively for some of the

cash flow issues, the amendments for those issues should then be applied prospectively at the earliest date practicable. The Company is currently assessing the potential impact of this ASU on its presentation of the consolidated statement of cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The guidance clarifies the definition of a business that provides a two-step analysis in the determination of whether an acquisition or derecognition is a business or an asset. The update removes the evaluation of whether a market participant could replace any missing elements and provides a framework to assist entities in evaluating whether both an input and a substantive process are present. This guidance is effective for annual reporting periods beginning after December 15, 2017,

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including interim periods within those annual reporting periods and early adoption is permitted for transactions that meet specified criteria. This guidance is to be applied on a prospective basis for transactions that occur after the effective date.
There are no other new accounting pronouncements that are expected to have a significant impact on the Company's consolidated financial statements and related disclosures.
2. Non-controlling Interest
The non-controlling interest on the unaudited condensed consolidated statement of operations and comprehensive (loss) income represents the portion of earnings or loss attributable to the economic interest in the Company's subsidiary, Malibu Boats Holdings, LLC, held by the non-controlling LLC Unit holders. Non-controlling interest on the unaudited condensed consolidated balance sheets represents the portion of net assets of the Company attributable to the non-controlling LLC Unit holders, based on the portion of the LLC Units owned by such Unit holders. The ownership of Malibu Boats Holdings, LLC is summarized as follows:

	As of December 31, 2017			As of June 30, 2017		
	Units	Ownership %		Units	Ownership %	
Non-controlling LLC Unit holders ownership in Malibu Boats Holdings, LLC	1,081,164	5.0	%	1,260,627	6.6	%
Malibu Boats, Inc. ownership in Malibu Boats Holdings, LLC	20,509,103	95.0	%	17,937,687	93.4	%
	21,590,267	100.0	%	19,198,314	100.0	%

Issuance of Additional LLC Units
Under the first amended and restated limited liability agreement of the LLC, as amended (the "LLC Agreement"), the Company is required to cause the LLC to issue additional LLC Units to the Company when the Company issues additional shares of Class A Common Stock. Other than in connection with the issuance of Class A Common Stock in connection with an equity incentive program, the Company must contribute to the LLC net proceeds and property, if any, received by the Company with respect to the issuance of such additional shares of Class A Common Stock. The Company must cause the LLC to issue a number of LLC Units equal to the number of shares of Class A Common Stock issued such that, at all times, the number of LLC Units held by the Company equals the number of outstanding shares of Class A Common Stock. During the six months ended December 31, 2017, the Company caused the LLC to issue a total of 2,582,797 LLC Units to the Company in connection with (i) the Company's issuance of Class A Common Stock to a non-employee director for his services, (ii) the issuance of Class A Common Stock for the vesting of awards granted under the Malibu Boats, Inc. Long-Term Incentive Plan (the "Incentive Plan"), (iii) the issuance of restricted Class A Common Stock granted under the Incentive Plan, (iv) the issuance of Class A Common Stock as equity consideration paid in the acquisition of Cobalt, (v) the issuance of Class A Common Stock to LLC Unit holders for exchange of their LLC Units, and (vi) the issuance of Class A Common Stock for the Offering completed by the Company on August 14, 2017. During the six months ended December 31, 2017, 11,381 LLC Units were canceled in connection with the vesting of share-based equity awards to satisfy employee tax withholding requirements and the retirement of 11,381 treasury shares in accordance with the LLC Agreement.
Distributions and Other Payments to Non-controlling Unit Holders
Distributions for Taxes
As a limited liability company (treated as a partnership for income tax purposes), Malibu Boats Holdings, LLC does not incur significant federal, state or local income taxes, as these taxes are primarily the obligations of its members. As authorized by the LLC Agreement, the LLC is required to distribute cash, to the extent that the LLC has cash available, on a pro rata basis, to its members to the extent necessary to cover the members' tax liabilities, if any, with respect to their share of LLC earnings. The LLC makes such tax distributions to its members based on an estimated tax rate and projections of taxable income. If the actual taxable income of the LLC multiplied by the estimated tax rate exceeds the tax distributions made in a calendar year, the LLC may make true-up distributions to its members, if cash or borrowings are available for such purposes. As of December 31, 2017 and June 30, 2017, tax distributions payable to non-controlling LLC Unit holders were $361 and $309, respectively. During the six months ended December 31,

2017 and 2016, tax distributions paid to the non-controlling LLC Unit holders were $602 and $583, respectively.
Other Distributions

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

3. Acquisition

On July 6, 2017, the Company completed its acquisition of Cobalt. The aggregate purchase price for the transaction was $130,525, consisting of $129,525 funded with cash and borrowings under the Company's credit agreement and $1,000 in equity equal to 39,262 shares of the Company's Class A Common Stock based on a closing stock price of $25.47 per share on June 27, 2017. The aggregate purchase price was subject to certain adjustments, including customary adjustments for the amount of working capital in the business at the closing date and subject to adjustment for any judgment or settlement in connection with a pending litigation matter between Cobalt and Sea Ray Boats, Inc. and Brunswick Corporation. William Paxson St. Clair, Jr., a former owner of Cobalt, was appointed as a director to the Company's Board of Directors and as President of Cobalt. The Company accounted for the transaction in accordance with ASC 805, Business Combinations.

The total consideration given to the former members of Cobalt has been allocated to the assets acquired and liabilities assumed based on preliminary estimates of their estimated fair values as of the date of the acquisition. Because of the complexities involved with performing the valuation, the Company has recorded the tangible and intangible assets acquired and liabilities assumed based upon their preliminary fair values as of July 6, 2017. The preliminary measurements of fair value were based upon estimates utilizing the assistance of third party valuation specialists, and are subject to change within the measurement period (up to one year from the acquisition date). The Company expects appraisals of tangible and intangible assets and working capital adjustments to be finalized during the third quarter of fiscal 2018.

The following table summarizes the preliminary purchase price allocation based on the estimated fair values of the assets acquired and liabilities of Cobalt assumed at the acquisition date:

Consideration:	
Cash consideration paid	$129,525
Equity consideration paid	1,000
Fair value of total consideration transferred	$130,525
Recognized preliminary amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash	$3,973
Accounts receivable	2,329
Inventories	14,343
Other current assets	363
Property, plant and equipment	12,934
Identifiable intangible assets	89,900
Current liabilities	(13,108)
Preliminary estimate of the fair value of assets acquired and liabilities assumed	110,734
Goodwill	19,791
Total purchase price	$130,525

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The preliminary fair value estimates for the Company's identifiable intangible assets acquired as part of the acquisition are as follows:

	Estimates of Fair Value	Estimated Useful Life (in years)
Definite-lived intangibles:		
Dealer relationships	$ 56,300	20
Patent	2,600	15
Total definite-lived intangibles	58,900	
Indefinite-lived intangible:		
Trade name	31,000	
Total intangible assets	$ 89,900	

The value allocated to inventories reflects the estimated fair value of the acquired inventory based on the expected sales price of the inventory, less an estimated cost to complete and a reasonable profit margin. The fair value of the identifiable intangible assets were determined based on the following approaches:

Trade Name - The value attributed to Cobalt's trade name was determined using a variation of the income approach called the relief from royalty method, which requires an estimate or forecast of the expected future cash flows. The trade name has an indefinite life.

Dealer Relationships - The value associated with Cobalt's dealer relationships is attributed to its long standing dealer distribution network. The estimate of fair value assigned to this asset was determined using the income approach, which requires an estimate or forecast of the expected future cash flows from the dealer relationships through the application of the multi-period excess earnings approach. The estimated remaining useful life of dealer relationships is approximately twenty years.

Patent - The value associated with the patented technology was based on financial projections and the patent's estimated remaining legal life of approximately fifteen years using a variation of the income approach called the royalty savings method.

The fair value of the definite-lived intangible assets are being amortized using the straight-line method to general and administrative expenses over their estimated useful lives. Indefinite-lived intangible assets are not amortized, but instead are evaluated for potential impairment on an annual basis in accordance with the provisions of ASC Topic 350, Intangibles—Goodwill and Other. The weighted average useful life of identifiable definite-lived intangible assets acquired was 19.8 years. Goodwill of $19,791 arising from the acquisition consists of expected synergies and cost savings as well as intangible assets that do not qualify for separate recognition. The indefinite-lived intangible asset and goodwill acquired are expected to be deductible for income tax purposes.

Acquisition-related costs of $3,478, which were incurred by the Company in fiscal year 2017 and the first half of fiscal 2018, were expensed in the period incurred, and are included in general and administrative expenses in the consolidated statement of operations and comprehensive income for the fiscal year ended June 30, 2017 and the six months ended December 31, 2017.

Pro Forma Financial Information (unaudited):

The following unaudited pro forma consolidated results of operations for the three and six months ended December 31, 2017 and 2016, assumes that the acquisition of Cobalt occurred as of July 1, 2016. The unaudited pro forma financial information combines historical results of Malibu and Cobalt, with adjustments for depreciation and amortization attributable to preliminary fair value estimates on acquired tangible and intangible assets for the respective periods. Non-recurring pro forma adjustments associated with the fair value step up of inventory were included in the reported pro forma cost of sales and earnings. The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal year 2017 or

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the results that may occur in the future:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net sales	$114,373	$89,327	$217,914	$190,277
Net (loss) income	(6,271)	3,965	496	11,760
Net (loss) income attributable to Malibu Boats, Inc.	(7,018)	3,591	(805)	10,635
Basic (loss) earnings per share	$(0.34)	$0.18	$(0.04)	$0.54
Diluted (loss) earnings per share	$(0.34)	$0.18	$(0.04)	$0.54

4. Inventories

Inventories, net consisted of the following:

	As of December 31, 2017	As of June 30, 2017
Raw materials	$ 28,253	$15,643
Work in progress	5,989	2,068
Finished goods	10,031	6,124
Total inventories	$ 44,273	$23,835

5. Property, Plant and Equipment

Property, plant and equipment, net consisted of the following:

	As of December 31, 2017	As of June 30, 2017
Land	$ 634	$367
Building and leasehold improvements	17,815	11,009
Machinery and equipment	27,621	22,844
Furniture and fixtures	4,143	3,536
Construction in process	7,534	3,646
	57,747	41,402
Less: Accumulated depreciation	(18,515)	(17,279)
Property, plant and equipment, net	$ 39,232	$24,123

During the first quarter of fiscal 2018, the Company disposed of various molds for models not currently in production with historical cost of $2,122 and a zero net book value. Depreciation expense was $1,687 and $1,026 for the three months ended December 31, 2017 and 2016, and $3,417 and $1,994 for the six months ended December 31, 2017 and 2016, respectively, substantially all of which was recorded in cost of sales.

6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended December 31, 2017, were as follows:

Goodwill as of June 30, 2017	$12,692
Addition related to the acquisition of Cobalt	19,791
Effect of foreign currency changes on goodwill	108
Goodwill as of December 31, 2017	$32,591

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The components of other intangible assets were as follows:

	As of December 31, 2017	As of June 30, 2017	Estimated Useful Life (in years)	Weighted Average Remaining Useful Life (in years)
Definite-lived intangibles:				
Reacquired franchise rights	$ 1,405	$1,383	5	1.8
Dealer relationships	86,190	29,852	8-20	19.3
Patent	3,986	1,386	12-15	14.2
Trade name	24,667	24,667	15	3.7
Non-compete agreement	55	54	10	6.8
Backlog	98	96	0.3	0.0
Total	116,401	57,438		
Less: Accumulated amortization	(50,475)	(47,841)		
Total definite-lived intangible assets, net	65,926	9,597		
Indefinite-lived intangible:				
Trade name	31,000	—		
Total other intangible assets, net	$ 96,926	$9,597		

Amortization expense recognized on all amortizable intangibles was $1,304 and $549 for the three months ended December 31, 2017 and 2016, respectively and $2,612 and $1,099 for the six months ended December 31, 2017 and 2016, respectively.

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

Fiscal years ending June 30:	
Remainder of 2018	$2,588
2019	5,095
2020	4,892
2021	4,805
2022	3,357
Thereafter	45,189
	$65,926

7. 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 and two years for its Malibu and Axis brands, respectively. For Cobalt boats, the Company provides a structural warranty of up to ten years which covers the hull, deck joints, bulkheads, floor, transom, stringers, and motor mount. In addition, the Company provides 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. Like our Malibu and Axis brands, 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.

The Company’s standard warranties require the Company or its dealers to repair or replace defective products during such warranty period at no cost to the consumer. The Company estimates the costs that may be incurred under its limited warranty and records a liability for such costs at the time the product revenue is recognized. Factors that affect the Company’s warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The Company assesses the adequacy of its recorded warranty liabilities by brand on a quarterly basis and adjusts the amounts as necessary. The Company utilizes historical claims trends and analytical tools to assist

in determining the appropriate warranty liability.
Changes in the Company’s product warranty liability, which is included in accrued expenses on the unaudited condensed consolidated balance sheets, were as follows:

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	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Beginning balance	$14,725	$ 8,733	$10,050	$ 8,083
Add: Warranty expense	1,717	1,772	4,725	3,641
Additions for Cobalt acquisition	—	—	4,404	—
Less: Warranty claims paid	(925)	(1,301)	(3,662)	(2,520)
Ending balance	$15,517	$ 9,204	$15,517	$ 9,204

8. Financing

Outstanding debt consisted of the following:

	As of December 31, 2017	As of June 30, 2017
Term loans	$ 110,000	$55,000
Less unamortized debt issuance costs	(1,699)	(1,597)
Total debt	108,301	53,403
Less current maturities	—	—
Long-term debt less current maturities	$ 108,301	$53,403

Long-Term Debt

Credit Agreement. On June 28, 2017, Malibu Boats, LLC as the borrower (the "Borrower"), entered into the Second Amended and Restated Credit Agreement with SunTrust Bank, as the administrative agent, swingline lender and issuing bank, to refinance the prior credit facility and to provide funds for the purchase of Cobalt (the "Credit Agreement"). The Credit Agreement provides the Borrower a term loan facility in an aggregate principal amount of $160,000 ($55,000 of which was drawn on June 28, 2017 to refinance our previous credit facility and $105,000 of which was drawn on July 6, 2017 to fund the payment of the purchase price for the Cobalt acquisition, as well as to pay certain fees and expenses related to entering into the Credit Agreement) and a revolving credit facility of up to $35,000. Each of the term loans and the revolving credit facility are scheduled to mature, on July 1, 2022. The Borrower has the option to request lenders to increase the amount available under the revolving credit facility by, or obtain incremental term loans of, up to $50,000, subject to the terms of the Credit Agreement and only if existing or new lenders choose to provide additional term or revolving commitments.

Borrowings under the 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. 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. The Company 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 pursuant to the Second Amended and Restated Security Agreement, by and among the Borrower, the LLC, the subsidiary guarantors, and SunTrust Bank, as administrative agent, dated as of June 28, 2017, and other collateral documents. The weighted average interest rate on the term loan was 3.7% for the six months ended December 31, 2017.

The Credit Agreement permits prepayment of the term loan facilities without penalty. The $55,000 term loan is subject to quarterly installments of approximately $700 per quarter until March 31, 2019, then approximately $1,000 per quarter until June 30, 2021, and approximately $1,400 per quarter through March 31, 2021. The $105,000 term

loan is subject to quarterly installments of approximately $1,300 per quarter until March 31, 2019, then approximately $2,000 per quarter until June 30, 2021, and approximately $2,600 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 New Credit Agreement. In connection with its Offering on August 14,

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2017, the Company used a portion of the proceeds, or $50,000, to make an optional prepayment of amounts outstanding on its term loans under the Credit Agreement. The Company exercised its option to apply the prepayment to principal installments through December 31, 2021, and a portion of principal installments due on March 31, 2022. Accordingly, no principal payments are required under the Credit Agreement until March 31, 2022, and as such, all borrowings as of June 30, 2017 and December 31, 2017, are reflected as noncurrent. In conjunction with the prepayment of the term loan, the Company wrote off the proportionate amount of debt issuance costs totaling $815 for the six months ended December 31, 2017, as interest expense in the Company's unaudited condensed consolidated statement of operations and comprehensive (loss) income.

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 $2,000 in any fiscal year, and (iv) share repurchase payments up to $20,000 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 $6,000 in any fiscal year, subject to compliance with other financial covenants.

In connection with entering into the Credit Agreement, the Company capitalized $2,074 in deferred financing costs during fiscal 2017 and the first quarter of fiscal 2018. These costs, in addition to the unamortized balance related to costs associated with our previous credit facility of $671, are being amortized over the term of the Credit Agreement into interest expense using the effective interest method and presented as a direct offset to the total debt outstanding as of December 31, 2017 and June 30, 2017.

Covenant Compliance

As of December 31, 2017 and June 30, 2017, the Company was in compliance with the covenants contained in the Credit Agreement.

Interest Rate Swap

On July 1, 2015, the Company entered into a five year floating to fixed interest rate swap with an effective start date of July 1, 2015. The swap is based on a one-month LIBOR rate versus a 1.52% fixed rate on a notional value of $39,250, which was equal to 50% of the outstanding balance of the term loan at the time of the swap arrangement. Under ASC Topic 815, Derivatives and Hedging, all derivative instruments are recorded on the unaudited condensed consolidated balance sheets at fair value as either short term or long term assets or liabilities based on their anticipated settlement date. Refer to Fair Value Measurements in Note 10. The Company has elected not to designate its interest rate swap as a hedge; therefore, changes in the fair value of the derivative instrument are being recognized in earnings in the Company's unaudited condensed consolidated statements of operations and comprehensive (loss) income. For the three months ended ended December 31, 2017 and 2016, the Company recorded gains of $172 and $580, respectively, and during the six months ended December 31, 2017 and 2016, the Company recorded gains of $203 and $825, respectively, for the change in fair value of the interest rate swap, which is included in interest expense in the unaudited condensed consolidated statements of operations and comprehensive (loss) income.

9. Tax Receivable Agreement Liability

The Company has a tax receivable agreement with the pre-IPO owners of the LLC that provides for payment by the Company to the pre-IPO owners (or their permitted assignees) of 85% of the amount of the benefits, if any, that the Company is deemed to realize as a result of (i) increases in tax basis and (ii) certain other tax benefits related to the

Company entering into the tax receivable agreement, including those attributable to payments under the tax receivable agreement. These contractual payment obligations are obligations of the Company and not of the LLC. The Company's tax receivable agreement liability was determined on an undiscounted basis in accordance with ASC 450, Contingencies, since the contractual payment obligations were deemed to be probable and reasonably estimable. The tax receivable agreement further provides that, upon certain mergers, asset sales or other forms of business combinations or other changes of control, the Company (or its successor) would owe to the pre-IPO owners of the LLC a lump-sum payment equal to the present value of all forecasted future payments that

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would have otherwise been made under the tax receivable agreement that would be based on certain assumptions, including a deemed exchange of LLC Units and that the Company would have sufficient taxable income to fully utilize the deductions arising from the increased tax basis and other tax benefits related to entering into the tax receivable agreement. The Company also is entitled to terminate the tax receivable agreement, which, if terminated, would obligate the Company to make early termination payments to the pre-IPO owners of the LLC. In addition, a pre-IPO owner may elect to unilaterally terminate the tax receivable agreement with respect to such pre-IPO owner, which would obligate the Company to pay to such existing owner certain payments for tax benefits received through the taxable year of the election.

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

The following table reflects the changes to the Company's tax receivable agreement liability:

	As of December 31, 2017	As of June 30, 2017
Payable pursuant to tax receivable agreement	$ 82,291	$ 93,750
Additions (reductions) to tax receivable agreement:		
Exchange of LLC Units for Class A Common Stock	1,259	960
Adjustment for change in estimated tax rate	(27,702)	(8,140)
Payments under tax receivable agreement	—	(4,279)
	55,848	82,291
Less current portion under tax receivable agreement	(4,323)	(4,332)
Payable pursuant to tax receivable agreement, less current portion	$ 51,525	$ 77,959

When estimating the expected tax rate to use in order to determine the tax benefit expected to be recognized from the Company’s increased tax basis as a result of exchanges of LLC Units by the pre-IPO owners of the LLC, the Company continuously monitors changes in its overall tax posture, including changes resulting from new legislation and changes as a result of new jurisdictions in which the Company is subject to tax.

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 the Company's U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. The Tax Act lowered the estimated tax rate used to compute the Company's future tax obligations and, in turn, reduced the future tax benefit expected to be realized by the Company 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 $30,317 during the second quarter of fiscal 2018 and was included as income in other income (expense), net in the accompanying unaudited condensed consolidated statements of operations and comprehensive (loss) income. Refer to Note 11 for further information on the Tax Act.

As discussed in Note 3, during the first quarter of fiscal 2018, the Company acquired Cobalt, which expanded the Company's footprint into new state tax jurisdictions. This change in the Company's state tax posture increased the estimated tax rate used in computing the Company's future tax obligations and, in turn, increased the future tax benefit expected to be realized by the Company 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 $2,615 during the first quarter of fiscal 2018, and is included as expense in other income (expense), net in the accompanying unaudited condensed consolidated statements of operations and comprehensive (loss) income.

During the fourth quarter of fiscal 2017, the state of Tennessee enacted tax legislation that provided for an alternative single sales apportionment formula for manufacturers, such as the LLC, that are engaged in qualifying activities within the state for the purpose of reducing their estimated future tax obligation in Tennessee. The Company intends to utilize the new apportionment formula, which will lower the estimated tax rate used in computing its future tax

obligations and, in turn, reduce the future tax benefit expected to be realized by the Company 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 the tax receivable agreement liability resulted in a decrease in the tax receivable agreement liability of $8,140 during the fourth quarter of fiscal 2017 and was included as income in other income (expense), net.

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As of December 31, 2017 and June 30, 2017, the Company had deferred tax assets of $105,886 and $109,375, respectively, associated with basis differences in assets upon acquiring an interest in Malibu Boats Holdings, LLC and pursuant to making an election under Section 754 of the Internal Revenue Code of 1986 (the "Internal Revenue Code"), as amended. The aggregate tax receivable agreement liability represents 85% of the tax benefits that the Company expects to receive in connection with the Section 754 election. In accordance with the tax receivable agreement, the next annual payment is anticipated approximately 75 days after filing the federal tax return which is due on April 15, 2018.

10. Fair Value Measurements

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

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

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

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

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2017:				
Assets				
Interest rate swap not designated as cash flow hedge	$252	$ —	$ 252	$ —
Total assets at fair value	$252	$ —	$ 252	$ —
As of June 30, 2017:				
Assets				
Interest rate swap not designated as cash flow hedge	$49	$ —	$ 49	$ —
Total assets at fair value	$49	$ —	$ 49	$ —

Fair value measurements for the Company's interest rate swap are classified under Level 2 because such measurements are based on significant other observable inputs. There were no transfers of assets or liabilities between Level 1 and Level 2 as of December 31, 2017 or June 30, 2017.

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

11. Income Taxes

Malibu Boats, Inc. is taxed as a C corporation for U.S. income tax purposes and is therefore subject to both federal and state taxation at a corporate level. The LLC continues to operate in the United States as a partnership for U.S. federal income tax purposes.
Income taxes are computed in accordance with ASC Topic 740, Income Taxes, and reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. The Company has deferred tax assets and liabilities and maintains valuation allowances where it is more likely than not that all or a portion of deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, such deferred tax assets will be adjusted through the Company’s provision for income taxes in the period in which this determination is made.

On December 22, 2017, the Tax Act was enacted which, among a number of its provisions, lowered the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. The Company's blended statutory tax rate for fiscal 2018 will approximate 28% as a result of the change in statutory rates and was applied to year-to-date earnings with the impact recorded in the Company's unaudited condensed consolidated statement of operations and comprehensive (loss) income for the three months ended December 31, 2017. For the three months ended December 31, 2017, the Company also recorded a non-cash provisional adjustment to income tax expense of $46,989 related to the Tax Act. This provisional amount is comprised of $40,029 related to the remeasurement of deferred taxes as of the enactment date and $6,960 related to the deferred tax impact of the reduction of the tax receivable agreement liability as discussed in Note 9. This provisional amount will be impacted primarily by the actual reversals of temporary differences through fiscal year end June 30, 2018. Based on an initial assessment of the Tax Act, the Company believes that the most significant impact on the Company’s unaudited condensed consolidated financial statements is the remeasurement of deferred taxes. Other provisions of the Tax Act are not expected to have a material impact on the Company’s consolidated financial statements for the fiscal year ended June 30, 2018.
As of December 31, 2017 and June 30, 2017, the Company maintained a valuation allowance of $12,537 and $10,324, respectively, against deferred tax assets related to state net operating losses and future amortization deductions (with respect to the Section 754 election) that are reported in the Tennessee corporate tax return without offsetting income, which is taxable at the LLC. The increase in the valuation allowance is due to the exchanges of LLC Units into Class A common stock by certain LLC Unit holders during the three months ended December 31, 2017.
The Company’s consolidated interim effective tax rate is based upon expected annual income from operations, statutory tax rates and tax laws in the various jurisdictions in which the Company operates. Significant or unusual items, including those related to the change in U.S. tax law noted above as well as other adjustments to accruals for tax uncertainties, are recognized in the quarter in which the related event occurs. For the three months ended December 31, 2017 and 2016, the Company's effective tax rate was 344.9% and 33.8%, respectively. For the six months ended December 31, 2017 and 2016, the Company's effective tax rate was 98.4% and 33.8%, respectively. For the three and six months ended December 31, 2017, the principal differences in the Company's effective tax rate with comparable historical periods presented and the statutory federal income tax rate of 35% relate to the impact of one-time items due to the change in tax law enacted in connection with the Tax Act. Additionally, the Company's effective tax rate for the three months ended December 31, 2017 and 2016 is related to, to a lesser extent, the impact

of the non-controlling interests in the LLC, a pass-through entity for U.S. federal tax purposes, state income taxes attributable to the LLC, and the benefit of deductions under Section 199 of the Internal Revenue Code.

12. Stock-Based Compensation

The Company adopted a long term incentive plan which became effective on January 1, 2014 (the "Incentive Plan"), and reserves for issuance up to 1,700,000 shares of Malibu Boats, Inc. Class A Common Stock for the Company's employees, consultants, members of its board of directors and other independent contractors at the discretion of the compensation

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committee. Incentive stock awards authorized under the Incentive Plan include unrestricted shares of Class A Common Stock, stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent awards and performance awards. As of December 31, 2017, 1,000,816 shares remain available for future issuance under the long term incentive plan. Readers should refer to Note 13 to the fiscal 2017 audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017, for additional information related to the Company's awards and the Incentive Plan.

On November 6, 2017, the Company granted 78,900 restricted stock units and restricted stock awards to key employees under the Incentive Plan. The grant date fair value of these awards was $2,436 based on a stock price of $30.87 per share on the date of grant. Under the terms of the agreements, 72% of the awards will vest ratably over four years on each anniversary of their grant date and approximately 28% of the awards will vest in tranches based on the achievement of annual or cumulative performance targets. Compensation costs associated with performance based awards are recognized over the requisite service period based on probability of achievement in accordance with ASC Topic 718, Compensation—Stock Compensation.

On November 6, 2017, the Company granted 40,000 options to certain key employees to purchase from the Company shares of Class A Common Stock at a price of $30.87 per share. The term of the options commence on November 6, 2017 and will expire on November 5, 2023, the day before the sixth anniversary of the grant date. Under the terms of the agreements, approximately 50% of the awards will vest ratably over four years on each anniversary of their grant date and the approximately 50% of the awards will vest in tranches based on the achievement of annual or cumulative performance targets. At November 6, 2017, the fair value of the option awards was $405 and is estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 2.0%, expected volatility of 37.1%, expected term of 4.25 years, and no dividends. Stock-based compensation expense attributable to the time based options is amortized on a straight-line basis over the requisite service period. Compensation costs associated with performance based option awards are recognized over the requisite service period based on probability of achievement in accordance with ASC Topic 718, Compensation—Stock Compensation.

Risk-free interest rate. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant.

Expected term. The Company used the simplified method to estimate the expected term of stock options. The simplified method assumes that employees will exercise share options evenly between the period when the share options are vested and ending on the date when the share options would expire.

Expected volatility. The Company determined expected volatility based on its historical volatility calculated using daily observations of the closing price of its publicly traded common stock.

Expected dividend. The Company has not estimated any dividend yield as the Company currently does not pay a dividend and does not anticipate paying a dividend over the expected term.

The following is a summary of the changes in the Company's stock options for the six months ended December 31, 2017:

	December 31, 2017		
	Shares	Price per share	Weighted Average Exercise Price/Share
Total outstanding options at beginning of year	104,000	$25.85	$ 25.85
Options granted	40,000	30.87	30.87
Options exercised	—	—	—
Options canceled	—	—	—
Outstanding options at end of period	144,000	27.24	27.24
Exercisable at end of period	—	—	—
Vested and expected to vest at end of year	144,000	$27.24	$ 27.24

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The following is a summary of the changes in non-vested restricted stock units and restricted stock awards for the six months ended December 31, 2017:

	Number of Restricted Stock Units and Restricted Stock Awards Outstanding	Weighted Average Grant Date Fair Value
Total Non-vested Restricted Stock Units as of June 30, 2017	225,854	$ 15.77
Granted	99,242	30.78
Vested	(85,432)	(19.01)
Forfeited	—	—
Total Non-vested Restricted Stock Units as of December 31, 2017	239,664	$ 20.83

Stock compensation expense attributable to the Company's share-based equity awards was $488 and $280 for the three months ended December 31, 2017 and 2016, respectively, and $850 and $745 for the six months ended December 31, 2017 and 2016, respectively. Stock compensation expense attributed to share-based equity awards issued under the Incentive Plan is recognized on a straight-line basis over the terms of the respective awards and is included in general and administrative expense in the Company's unaudited condensed consolidated statement of operations and comprehensive (loss) income. As of December 31, 2017 and June 30, 2017, unrecognized compensation cost related to nonvested, share-based compensation was $5,592 and $3,601, respectively. As of December 31, 2017, the weighted average years outstanding for unvested awards under the Incentive Plan was 2.4 years. During the six months ended December 31, 2017, the Company withheld approximately 18,335 shares at an aggregate cost of approximately $543, as permitted by the applicable equity award agreements, to satisfy employee tax withholding requirements for employee share-based equity awards that have vested and were issued. Awards vesting during the six months ended December 31, 2017, include 20,342 fully vested restricted stock units and 3,534 shares of Class A common stock issued to non-employee directors for their service as directors for the Company.

13. Net Earnings Per Share

Basic net income per share of Class A Common Stock is computed by dividing net income attributable to the Company's earnings by the weighted average number of shares of Class A Common Stock outstanding during the period. The weighted average number of shares of Class A Common Stock outstanding used in computing basic net income per share includes fully vested restricted stock units awarded to directors that are entitled to participate in distributions to common shareholders through receipt of additional units of equivalent value to the dividends paid to Class A Common Stock holders.

Diluted net income per share of Class A Common Stock is computed similarly to basic net income per share except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of any common stock equivalents using the treasury method, if dilutive. The Company’s restricted LLC Units and non-qualified stock option are considered common stock equivalents for this purpose. The number of additional shares of Class A Common Stock related to these common stock equivalents and stock options are calculated using the treasury stock method.

Basic and diluted net (loss) income per share of Class A Common Stock has been computed as follows (in thousands, except share and per share amounts)

	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Basic:				
Net (loss) income attributable to Malibu Boats, Inc.	$(6,383)	$ 6,901	$(498)	$ 10,681
Shares used in computing basic net (loss) income per share:				
Weighted-average Class A Common Stock	20,263,999	17,648,208	19,644,917	17,634,530
Weighted-average participating restricted stock units convertible into Class A Common Stock	165,628	137,914	159,274	125,726
Basic weighted-average shares outstanding	20,429,627	17,786,122	19,804,191	17,760,256
Basic net (loss) income per share	$(0.31)	$ 0.39	$(0.03)	$ 0.60
Diluted:				
Net (loss) income attributable to Malibu Boats, Inc.	$(6,383)	$ 6,901	$(498)	$ 10,681
Shares used in computing diluted net (loss) income per share:				
Basic weighted-average shares outstanding	20,429,627	17,786,122	19,804,191	17,760,256
Restricted stock units granted to employees	—	56,016	—	57,586
Diluted weighted-average shares outstanding 1	20,429,627	17,842,138	19,804,191	17,817,842
Diluted net (loss) income per share	$(0.31)	$ 0.39	$(0.03)	$ 0.60

[1] The Company excluded 1,274,484 and 1,423,049 potentially dilutive shares from the calculation of diluted net (loss) income per share for the three months ended December 31, 2017 and 2016, as these shares would have been antidilutive.

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

14. Commitments and Contingencies

Repurchase Commitments

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

Repurchases and subsequent sales are recorded as a revenue transaction. The net difference between the original repurchase price and the resale price is recorded against the loss reserve and presented in cost of sales in the accompanying unaudited condensed consolidated statement of operations and comprehensive (loss) income. No units were repurchased during the six months ended December 31, 2017 or 2016. Accordingly, the Company did not carry a reserve for repurchases as of December 31, 2017 or June 30, 2017, respectively. The total amount financed under the floor financing programs with repurchase obligations was $165,763 and $107,923 as of December 31, 2017 and June 30, 2017, respectively.

In connection with the Cobalt acquisition, the Company assumed a collateralized receivables financing arrangement with a third-party floor plan financing provider for Cobalt's European dealers. In August 2017, the Company entered

into a similar arrangement for its Malibu European dealers. Under terms of both arrangements, the Company transfers the right to collect a trade receivable to the financing provider in exchange for cash but agrees to repurchase the receivable if the dealer defaults. Since the transfer of the receivable to the financing provider does not meet the conditions for a sale under ASC Topic 860,

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Transfers and Servicing, the Company continues to report the transferred trade receivable in other current assets with an offsetting balance recorded as a secured obligation in accrued expenses in the Company's unaudited condensed consolidated balance sheet. As of December 31, 2017 and June 30, 2017, the Company had financing receivables of $923 and $0, respectively, recorded in other current assets and accrued expenses related to these arrangements.

Contingencies

Certain conditions may exist which could result in a loss, but which will only be resolved when future events occur. The Company, in consultation with its legal counsel, assesses such contingent liabilities, and such assessments inherently involve an exercise of judgment. If the assessment of a contingency indicates that it is probable that a loss has been incurred, the Company accrues for such contingent loss when it can be reasonably estimated. If the assessment indicates that a potentially material loss contingency is not probable but reasonably estimable, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If the assessment of a contingency deemed to be both probable and reasonably estimable involves a range of possible losses, the amount within the range that appears at the time to be a better estimate than any other amount within the range would be accrued. When no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued even though the minimum amount in the range is not necessarily the amount of loss that will be ultimately determined.

Estimates of potential legal fees and other directly related costs associated with contingencies are not accrued but rather are expensed as incurred. Except as disclosed below under "Legal Proceedings," management does not believe there are any pending claims (asserted or unasserted) at December 31, 2017 (unaudited) or June 30, 2017 that may have a material adverse impact on the Company’s financial condition, results of operations or cash flows.

Legal Proceedings

On June 29, 2015, the Company filed suit against MasterCraft Boat Company, LLC, or "MasterCraft," in the U.S. District Court for the Eastern District of Tennessee, seeking monetary and injunctive relief. The Company's complaint alleged MasterCraft's infringement of a utility patent related to wake surfing technology (U.S. Patent No. 8,578,873). The Court had issued a scheduling order setting deadlines for discovery and other events in the litigation, leading up to a trial beginning on August 14, 2017. On February 16, 2016, the Company filed a second suit against MasterCraft in the U.S. District Court for the Eastern District of Tennessee, seeking monetary and injunctive relief. The Company’s complaint alleges MasterCraft’s infringement of another utility patent related to wake surfing technology (U.S. Patent No. 9,260,161). The Court had issued a scheduling order setting deadlines for discovery and other events in the litigation, leading up to a trial beginning on October 30, 2017. On May 18, 2016, MasterCraft filed two petitions with the U.S. Patent and Trademark Office, or “PTO,” requesting institution of Inter Partes Review, or “IPR,” of the Company’s U.S. Pat. No. 8,578,873, the patent at issue in the first Tennessee lawsuit. On August 23, 2016, the Company filed its preliminary responses to the IPR petitions. On November 16, 2016, the PTO declined to institute IPR in response to either of the two petitions. On September 26, 2016, MasterCraft filed a request with the PTO for Ex Parte Reexamination of the Company’s U.S. Pat. No. 9,260,161, the patent at issue in the second Tennessee lawsuit. On November 18, 2016, the PTO granted that request for ex parte reexamination, and on February 16, 2017, the PTO issued a Non-Final Office Action. On April 17, 2017, the Company filed a Response to the Non-Final Office Action. On May 2, 2017, the Company and MasterCraft entered into a Settlement Agreement (the “MasterCraft Settlement Agreement”) to settle lawsuits filed by the Company in the U.S. District Court for the Eastern District of Tennessee alleging infringement by MasterCraft of two of the Company’s utility patents. Under the terms of the MasterCraft Settlement Agreement, MasterCraft made a one-time payment of $2,500 during the fourth quarter of fiscal year ended June 30, 2017, and entered into a license agreement for the payment of future royalties for boats sold by MasterCraft using the licensed technology. The parties agreed to dismiss all claims in the patent litigation.

On April 22, 2014, Marine Power Holding, LLC ("Marine Power"), a former supplier of engines to the Company, initiated a lawsuit against the Company in the U.S. District Court for the Eastern District of Tennessee seeking monetary damages. On July 10, 2015, the Company filed an Answer and Counterclaim in the lawsuit filed by Marine Power. The Company denied any liability arising from the causes of action alleged by Marine Power. The lawsuit proceeded to trial on August 8, 2016 and on August 18, 2016, a judgment was rendered by the jury against the Company in the litigation with Marine Power resulting in the Company taking a charge of $3,268 during the fiscal

year ended June, 30, 2016. The Company subsequently prevailed on post-judgment motions and, on December 15, 2016, the court amended the judgment in the lawsuit for monetary damages to $1,938. On December 23, 2016, Marine Power filed a notice of appeal contesting the court's decision to reduce the amount of the original judgment. On January 6, 2017, the Company filed a notice of cross appeal, pursuant to which the Company appealed the amended final judgment and other rulings of the court. On May 27, 2017, the Company and Marine Power entered into a final settlement agreement whereby the Company agreed to pay $2,175 to settle all claims related to the litigation (the "Settlement"). The Settlement was paid in full on May 30, 2017. On June 9, 2017, a joint motion to withdraw appeals was submitted by the parties and their respective appeals were subsequently dismissed. On July 6, 2017, Marine Power filed an

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acknowledgment of satisfaction in the trial court, in which it stipulated that the amended final judgment entered on December 15, 2016, had been compromised and satisfied without any admission, agreement or acknowledgment of liability or fault by any party.

On August 26, 2016, Wizard Lake Marine Inc. and Wizard Lake Marine (B.C.) Inc., collectively “Wizard Lake”, a former dealer of the Company’s, initiated a lawsuit against the Company in the Court of Queen’s Bench of Alberta, Canada seeking monetary damages. The suit alleges breach of contract, wrongful termination, misrepresentation, breach of duty of good faith, and intentional interference. Wizard Lake is asking for damages exceeding $5,000. The Company denies any liability arising from the causes of action alleged by Wizard Lake and is vigorously defending the lawsuit, including commencing a counterclaim against Wizard Lake. The lawsuit is early in the discovery phase.

On January 21, 2015, Cobalt, a wholly owned indirect subsidiary of the Company, filed a patent infringement lawsuit against the Brunswick Corporation and its subsidiary Sea Ray Boats, Inc. alleging that certain of the Sea Ray's branded boats infringed upon Cobalt's patented submersible swim step technology (U.S. Patent No. 8,375,880). On October 31, 2017, the US District Court in the Eastern District of Virginia entered an amended judgment on the jury verdict in favor of Cobalt.

15. Segment Information

The following tables present financial information for the Company’s reportable segments for the three months ended December 31, 2017 and 2016, respectively, and the Company’s financial position at December 31, 2017 and June 30, 2017, respectively:

	Three Months Ended December 31, 2017					Six Months Ended December 31, 2017				
	Malibu U.S.	Cobalt	Malibu Australia	Eliminations	Total	U.S.	Cobalt	Australia	Eliminations	Total
Net sales	$70,226	$39,367	$6,925	$(2,145)	$114,373	$133,258	$76,285	$12,688	$(4,317)	$217,914
Affiliate (or intersegment) sales	2,145	—	—	(2,145)	—	4,317	—	—	(4,317)	—
Net sales to external customers	68,081	39,367	6,925	—	114,373	128,941	76,285	12,688	—	217,914
Income before provision for income taxes	40,845	3,369	766	(6)	44,974	44,717	5,193	1,236	(16)	51,130

	Three Months Ended December 31, 2016					Six Months Ended December 31, 2016				
	Malibu U.S.	Cobalt	Malibu Australia	Eliminations	Total	U.S.	Cobalt	Australia	Eliminations	Total
Net sales	$63,672	$—	$6,173	$(2,184)	$67,661	$122,440	$—	$11,668	$(4,426)	$129,682
Affiliate (or intersegment) sales	2,184	—	—	(2,184)	—	4,426	—	—	(4,426)	—
Net sales to external customers	61,488	—	6,173	—	67,661	118,014	—	11,668	—	129,682
Income before provision for income taxes	11,215	—	455	12	11,682	17,276	—	839	(60)	18,055

	As of December 31, 2017	As of June 30, 2017

Assets		
Malibu U.S.	$ 307,567	$222,252
Cobalt	149,037	—
Malibu Australia	19,545	19,099
Eliminations	(147,766)	(17,688)
Total assets	$ 328,383	$223,663

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the information in this Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations", may constitute forward-looking statements. In some cases you can identify these "forward-looking statements" by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. Any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results to vary materially from our future results, performance or achievements, or those of our industry, expressed or implied in such forward-looking statements. Such factors include, among others: the impact of the Tax Cuts and Job Act of 2017; the successful integration of Cobalt Boats, LLC into our business; general industry, economic and business conditions; demand for our products; changes in consumer preferences; competition within our industry; our reliance on our network of independent dealers; our ability to manage our manufacturing levels and our large fixed cost base; the successful introduction of our new products; and the success of our engines integration strategy as well as other factors affecting us discussed under the heading "Item 1A-Risk Factors" appearing in the Company's Annual Report on Form 10-K for the year ended June 30, 2017, filed with the Securities and Exchange Commission ("SEC") on September 8, 2017 ("Form 10-K"). Many of these risks and uncertainties are outside our control, and there may be other risks and uncertainties which we do not currently anticipate because they relate to events and depend on circumstances that may or may not occur in the future. We do not intend and undertake no obligation to update any forward-looking information to reflect actual results or future events or circumstances.

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein.

Malibu Boats, Inc. is a Delaware corporation with its principal offices in Loudon, Tennessee. We use the terms "Malibu," the "Company," "we," "us," "our" or similar references to refer to Malibu Boats Holdings, LLC, or the LLC, and its subsidiary Malibu Boats LLC and its consolidated subsidiaries, including Cobalt Boats, LLC.

Overview

We are a leading designer, manufacturer and marketer of a diverse range of recreational powerboats, including performance sport boats, sterndrive and outboard boats. We have the #1 market share position in the United States in the performance sport boat category through our Malibu and Axis brands. With our recent acquisition of Cobalt, we also have the #1 market share position in the United States through our Cobalt brand in the 24'—29' segment of the sterndrive category. Our boats are used for water sports, including water skiing, wakeboarding and wake surfing, as well as general recreational boating. We believe we have been a consistent innovator in the recreational powerboat industry, designing products that appeal to an expanding range of recreational boaters and water sports enthusiasts whose passion for boating and water sports is a key aspect of their lifestyle. We believe many of our innovations, such as our proprietary Surf Gate technology launched in 2012, expand the market for our products by introducing consumers to new and exciting recreational activities. In July 2017, we added another strong brand in Cobalt with a versatile lineup of boats, further deepening our product portfolio, expanding our addressable market, and ultimately, our ability to provide consumers with a better customer-inspired experience.

We sell our boats under three brands—Malibu; Axis; and Cobalt. 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. Retail prices of our Malibu boats typically range from $50,000 to $180,000. 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. Retail prices of our Axis boats typically range from $50,000 to $95,000. 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 Cobalt boats typically range from $50,000 to $700,000.

We sell our boats through a dealer network that we believe is the strongest in the recreational powerboat category. As of July 1, 2017, our Malibu and Axis brand distribution channel consisted of 126 independent dealers operating in 146 locations in North America and we had 59 independent dealer locations across 40 countries outside of North America, including Australia.

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Our acquisition of Cobalt has allowed us to expand into Cobalt's strong network which consists of 111 independent dealers operating 142 locations worldwide.

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.

On a consolidated basis, we achieved second quarter fiscal 2018 net sales, gross profit, net loss and adjusted EBITDA of $114.4 million, $27.5 million, $5.6 million and $20.6 million, respectively, compared to $67.7 million, $17.8 million, $7.7 million and $13.6 million, respectively, for the second quarter of fiscal 2017. For the second quarter of fiscal 2018, net sales increased 69.0%, gross profit increased 54.5%, net income decreased 172.2% and adjusted EBITDA increased 51.3% for the three months ended December 31, 2017 as compared to the three months ended December 31, 2016. On a consolidated basis, we achieved first half fiscal 2018 net sales, gross profit, net income and adjusted EBITDA of $217.9 million, $50.4 million, $0.8 million and $38.3 million, respectively, compared to $129.7 million, $33.6 million, $12.0 million and $23.5 million, respectively, for the first half of fiscal 2017. For the first half of fiscal 2018, net sales increased 68.0%, gross profit increased 50.0%, net income decreased 93.1% and adjusted EBITDA increased 63.0% for the six months ended December 31, 2017 as compared to the six months ended December 31, 2016. Our results for the three and six months ended December 31, 2017 include Cobalt since our acquisition of Cobalt on July 6, 2017. For the definition of adjusted EBITDA and a reconciliation to net (loss) 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 segment 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 59.2% and 91.0% of our net sales for the six months ended December 31, 2017 and December 31, 2016, respectively. We acquired Cobalt in July 2017 and it represented 35.0% of our net sales for the six months ended December 31, 2017. Malibu Australia represented 5.8% and 9.0% of our net sales for the six months ended December 31, 2017 and December 31, 2016, respectively. See Note 15 to our unaudited condensed consolidated financial statements for more information about our reporting segments.

Tax Cuts and Jobs Act of 2017

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was enacted into law, which, among other items, lowered the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. Our blended statutory tax rate for fiscal 2018 will approximate 28% as a result of the change in statutory rates and was applied to year-to-date earnings with the impact recorded in our unaudited condensed consolidated statement of operations and comprehensive (loss) income for the three months ended December 31, 2017. As a result of the Tax Act, we recorded a one-time increase in deferred tax expense of $47.0 million for the three months ended December 31, 2017 to account for the remeasurement of our deferred tax assets and liabilities on the enactment date and deferred tax impact associated with the reduction of the tax receivable agreement liability. We also recognized a decrease in our tax receivable agreement liability and a corresponding increase in other income of $30.3 million for the three months ended December 31, 2017 as a result of the Tax Act and the reduction in our expected tax rate, which in turn reduced the future tax benefit expected to be realized by us related to an increased basis recognized from previous sales and exchanges of LLC Units by our pre-IPO owners. The Tax Act also includes provisions that may partially offset the benefit of the tax rate reduction.

Based on our initial assessment of the Tax Act, we believe that the most significant impact on our financial statements is the remeasurement of deferred taxes. We do not expect other provisions of the Tax Act to have a material impact on our consolidated financial statements for the fiscal year ended June 30, 2018. Quantifying all of the impacts of the Tax Act however 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 and, if necessary, record any further adjustments to our deferred tax assets and liabilities and our tax receivable agreement liability in future periods.

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% between 2011 and 2016, 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 continued in performance sport boats for calendar year 2017, however, the pace was not as strong as that of calendar years 2012 through 2016. Fiberglass sterndrive and outboard boats, the target markets for our Cobalt branded product, have seen combined market growth at a 5% compound annual growth rate between 2011 and 2016. The primary market for sterndrive propulsion has been challenged, but that challenge has been primarily in shorter foot lengths, where Cobalt has limited presence. Cobalt's performance has been helped by share gains in the larger sterndive foot lengths (22' to 30') where we primarily compete and the overall market growth has been driven by outboard propulsion, where we are a new entrant. We expect the growing demand for our products to continue in performance sports boats, the stern drive segment where Cobalt competes and the outboard segment. In addition, numerous variables 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 U.S. dollar has resulted in reduced demand for our boats in certain markets.In recent years, growth in our domestic markets has offset diminished demand from markets that are driven by the oil industry and international markets. Recently, oil prices have risen and a lengthy cycle of higher prices would positively affect markets whose economies significantly depend on the oil industry. Conversely, if oil prices recede back to the levels of the last 24 to 36 months, we expect demand in those markets will be consistent with the past few years. Consumer confidence, expanded or eroded, is a variable that could also impact demand in both directions. We also believe recent tax legislation will have a direct, positive impact on our consumers and will result in higher demand for performance sport boats. Other factors that could impact demand for recreational powerboats include changes in interest rates,the availability of credit to dealers and retail consumers, changes in fuel costs, the acceptance of our new products, our ability to maintain or improve our market share positions , and the costs of labor and raw materials and key components.

Since 2008, we have successfully increased our market share position among other manufacturers of performance sport boats because of, among other things, our new models and product development, our improved distribution, and our innovative features. However, as noted above, the performance sports boat, sterndrive and outboard markets have been growing in recent years and as a result competition in our industry has been more intense. As a result of this competitive environment, our market share position for performance sports boats increased only slightly in 2015. During calendar year 2016, however, our domestic market share in the performance sports boat market increased meaningfully because of well- received new models that year, more innovative features and improved management of our dealer network. In calendar year 2017, we saw our market share for performance sports boats continue to be strong and remain in the 33% range domestically. We also added the Cobalt brand and its markets to our portfolio in Juy 2017 and we are exploring ways to improve the market share position of Cobalt noted above. Our Cobalt brand experienced a strong market share gain of more than 100 basis points in calendar year 2017. We continue to maintain a strong lead over our nearest competitors in the performance sports boat segment and we believe we are well-positioned to maintain our industry leading market share with our strong dealer network and new product pipeline.Further, we continue to be the market share leader in both the premium and value-oriented product sub-categories of the performance sports boat market.

We also believe we have the opportunity to grow Cobalt’s market leading position in the 24’ to 29’ segment of the sterndrive category and to improve its market share in other categories of the stern-drive segment and in the outboard segment, in which we are a relatively new entrant. We believe our track record of expanding our market share in the performance sports boat segment through new models and product development, improved distribution, and innovative features is directly transferable to our new Cobalt brand. 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 begun to execute on this strategy. We believe enhancing new product development combined with diligent management of the Cobalt dealer network will position 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, such as the economic environment and consumer demand for our products, our ability to develop new products and innovate, our product mix, our ability to manage manufacturing costs, including through our vertical integration efforts, sales cycles and inventory levels, the strength of our dealer network and our ability to offer dealer financing and incentives.While we do not have control of all factors affecting our results from operations, we work diligently to influence and manage those factors which we can impact to enhance our results of operations.

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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 of Malibu and Axis models include optional feature upgrades purchased by the consumer, such as our Integrated Surf Platform which includes Surf Gate and Power Wedge II, which 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 networks; and
  - 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, rebates and free flooring, we provide to our dealers based on sales of eligible products. For our Malibu and Axis models, if a dealer meets its monthly or quarterly commitment volume based on tier, as well as other terms of the rebate program, the dealer is entitled to a specified rebate tied to each tier. Cobalt dealers are entitled to volume-based discounts taken at the time of invoice. Our dealers that take delivery of current model year boats in the offseason, typically July through April in the U.S., are also 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.

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 on our term loan, interest on our interest rate swap arrangement and change in the fair value of our interest rate swap we entered into on July 1, 2015, amortization of deferred financing costs on our amended and restated credit agreement and adjustments to our tax receivable agreement liability. For the three and six months ended December 31, 2017, we recognized a significant amount of other income because of a reduction in our tax receivable agreement liability, which resulted in a corresponding amount of other income. This was a result of the enactment of the Tax Act, which reduced our estimated tax rate and thereby decreased our expected future payments payable pursuant to our tax receivable agreement.

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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 provision for income taxes reflects an estimated effective income tax rate attributable to Malibu Boats, Inc.'s share of income. Our provision for income taxes for the three and six months ended December 31, 2017 reflects a reported effective tax rate of 344.9% and 98.4%, respectively, which differs from the blended statutory federal income tax rate of approximately 28% primarily due to the impact of the change in tax law enacted in accordance with the Tax Act through the remeasurement of our deferred tax assets. Our effective tax rate is also impacted by, to a lesser extent the impact of additional jurisdictions in which we are taxed as a result of the Cobalt acquisition, the impact of the 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 of 1986, as amended (the "Internal Revenue Code"). Our effective tax rate also reflects the impact of the Company's share of the LLC's permanent items such as stock compensation expense attributable to profits interests.

Net Income Attributable to Non-controlling Interest

As of December 31, 2017, we had a 95.0% controlling economic interest and 100% voting interest in the LLC and, therefore, 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 non-controlling LLC members.

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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 unaudited 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.

	Three Months Ended December 31,				Six Months Ended December 31,			
	2017		2016		2017		2016	
	$	% Revenue	$	% Revenue	$	% Revenue	$	% Revenue
Net sales	114,373	100.0 %	67,661	100.0 %	217,914	100.0 %	129,682	100.0 %
Cost of sales	86,857	75.9 %	49,848	73.7 %	167,475	76.9 %	96,046	74.1 %
Gross profit	27,516	24.1 %	17,813	26.3 %	50,439	23.1 %	33,636	25.9 %
Operating expenses:								
Selling and marketing	3,122	2.7 %	2,150	3.2 %	6,711	3.1 %	4,573	3.5 %
General and administrative	7,435	6.5 %	3,453	5.1 %	14,509	6.7 %	9,517	7.3 %
Amortization	1,304	1.1 %	549	0.8 %	2,612	1.2 %	1,099	0.8 %
Operating income	15,655	13.7 %	11,661	17.2 %	26,607	12.2 %	18,447	14.2 %
Other income (expense), net:								
Other income	30,333	26.5 %	58	0.1 %	27,736	12.7 %	75	0.1 %
Interest expense, net	(1,014)	(0.9)%	(37)	(0.1)%	(3,213)	(1.5)%	(467)	(0.4)%
Other income (expense)	29,319	25.6 %	21	— %	24,523	11.3 %	(392)	(0.3)%
Income before provision for income taxes	44,974	39.3 %	11,682	17.3 %	51,130	23.5 %	18,055	13.9 %
Provision for income taxes	50,558	44.2 %	3,945	5.8 %	50,300	23.1 %	6,092	4.7 %
Net (loss) income	(5,584)	(4.9)%	7,737	11.4 %	830	0.4 %	11,963	9.2 %
Net income attributable to non-controlling interest	799	0.7 %	836	1.2 %	1,328	0.6 %	1,282	1.0 %
Net (loss) income attributable to Malibu Boats, Inc.	(6,383)	(5.6)%	6,901	10.2 %	(498)	(0.2)%	10,681	8.2 %

	Three Months Ended December 31,				Six Months Ended December 31,			
	2017		2016		2017		2016	
	Unit Volumes	% Total	Unit Volumes	% Total	Unit Volumes	% Total	Unit Volumes	% Total
Volume by Segment								
Malibu U.S.	893	60.0 %	841	91.0 %	1,660	59.3 %	1,597	90.9 %
Cobalt	510	34.2 %	—	— %	979	35.0 %	—	— %
Australia	86	5.8 %	83	9.0 %	159	5.7 %	160	9.1 %
Total units	1,489		924		2,798		1,757	
Volume by Brand								
Malibu	688	46.2 %	664	71.9 %	1,289	46.1 %	1,241	70.6 %
Axis	291	19.5 %	260	28.1 %	530	18.9 %	516	29.4 %
Cobalt	510	34.3 %	—	— %	979	35.0 %	—	— %
Total units	1,489		924		2,798		1,757	
Net sales per unit	$76,812		$73,226		$77,882		$73,809	

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Comparison of the Three Months Ended December 31, 2017 to the Three Months Ended December 31, 2016

Net Sales

Net sales for the three months ended December 31, 2017 increased $46.7 million, or 69.0%, to $114.4 million as compared to the three months ended December 31, 2016. Unit volume for the three months ended December 31, 2017, increased 565 units, or 61.1%, to 1,489 units as compared to the three months ended December 31, 2016. 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 $39.4 million and 510 units, respectively, for the three months ended December 31, 2017. Net sales attributable to our Malibu U.S. segment increased $6.6 million, or 10.7%, to $68.1 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. Unit volumes attributable to our Malibu U.S. segment increased 52 units for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. The increase in net sales and unit volume for Malibu U.S. was driven primarily by continued strong demand for our new models such as the Malibu Wakesetter 23 LSV and Axis A24 as well as our all new Malibu 21 MLX introduced in November 2017. Net sales from our Malibu Australia segment increased $0.8 million, or 12.2%, to $6.9 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. Our overall net sales per unit increased 4.9% to $76,812 per unit for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. Net sales per unit for our Malibu U.S. segment increased 4.3% to $76,239 per unit for the three months ended December 31, 2017, compared to the three months ended December 31, 2016, driven by strong demand for optional features and year over year price increases.

Cost of Sales

Cost of sales for the three months ended December 31, 2017 increased $37.0 million, or 74.2%, to $86.9 million as compared to the three months ended December 31, 2016. 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 the three months ended December 31, 2017 increased $9.7 million, or 54.5%, to $27.5 million compared to the three months ended December 31, 2016. The increase in gross profit was due mainly to higher unit volumes attributable to our acquisition of Cobalt. Gross margin for the three months ended December 31, 2017 decreased 227 basis points from 26.3% to 24.1% over the same period in the prior fiscal year due to the acquisition of Cobalt.

Operating Expenses

Selling and marketing expenses for the three month period ended December 31, 2017, increased $1.0 million or 45.2%, compared to the three months ended December 31, 2016 due to the acquisition of Cobalt. As a percentage of sales, selling and marketing expenses decreased 45 basis points over the same period in the prior fiscal year. General and administrative expenses for the three months ended December 31, 2017, increased $4.0 million, or 115.3%, to $7.4 million as compared to the three months ended December 31, 2016, 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. In addition, during the second quarter of fiscal 2017, there was an approximate $1.4 million decrease in the Marine Power litigation judgment following our appeal of the verdict and court ruling amending the judgment from $3.3 million to $1.9 million in December 2016. Amortization expense for the three month period ended December 31, 2017, increased $0.8 million or 137.5% when compared to the three months ended December 31, 2016, due to additional amortization from intangible assets acquired as a result of the Cobalt acquisition.

Other Income (Expense), Net

Other income (expense), net for the three month period ended December 31, 2017 increased $29.3 million as compared to the three months ended December 31, 2016. The increase in other income (expense), net was primarily due to a $30.3 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 higher interest expense on our term loan, which had an overall higher average principal balance for the three month period ended December 31, 2017, compared to the three months ended December 31, 2016.

Provision for Income Taxes

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Our provision for income taxes for the three months ended December 31, 2017, increased $46.6 million, to $50.6 million compared to the three months ended December 31, 2016. As a result of the enactment of the Tax Act and new statutory rates effective as of January 1, 2017, our blended statutory tax rate for fiscal 2018 will approximate 28%. This blended statutory rate was applied to year-to-date earnings. For the three months ended December 31, 2017, we also recorded a non-cash provisional adjustment to income tax expense of $47.0 million for the remeasurement of deferred taxes on the enactment date of the Tax Act and deferred tax impact related to the reduction of the tax receivable agreement liability. This provisional amount will be impacted primarily by the actual reversals of temporary differences through fiscal year end June 30, 2018. For the three months ended December 31, 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 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 of 1986, as amended (the "Internal Revenue Code"). Our effective tax rate also reflects the impact of the Company's share of the LLC's permanent items such as stock compensation expense attributable to profits interests.

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 unaudited condensed consolidated statements of operations and comprehensive (loss) income is computed by multiplying pre-tax income for the three month period ended December 31, 2017, by the percentage ownership in the LLC not directly attributable to us. For the three months ended December 31, 2017 and 2016, the weighted average non-controlling interest attributable to ownership interests in the LLC not directly attributable to us was 5.4% and 7.2%, respectively.

Comparison of the Six Months Ended December 31, 2017 to the Six Months Ended December 31, 2016

Net Sales

Net sales for the six months ended December 31, 2017, increased $88.2 million, or 68.0%, to $217.9 million as compared to the six months ended December 31, 2016. Unit volume for the six months ended December 31, 2017, increased 1,041 units, or 59.2%, to 2,798 units as compared to the six months ended December 31, 2016. 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 $76.3 million and 979 units, respectively, for the six months ended December 31, 2017. Net sales attributable to our Malibu U.S. segment increased $10.9 million, or 9.3%, to $128.9 million for the six months ended December 31, 2017, compared to the six months ended December 31, 2016. Unit volumes attributable to our Malibu U.S. segment increased 63 units for the six months ended December 31, 2017, compared to the six months ended December 31, 2016. The increase in net sales and unit volume was driven primarily by continued strong demand for our new models such as the Malibu Wakesetter 23 LSV and Axis A24. Net sales from our Malibu Australia segment increased $1.0 million, or 8.7%, to $12.7 million for the six months ended December 31, 2017, compared to the six months ended December 31, 2016. Our overall net sales per unit increased 5.5% to $77,882 per unit for the six months ended December 31, 2017, compared to the six months ended December 31, 2016. Net sales per unit for our Malibu U.S. segment increased 5.1% to $77,675 per unit for the six months ended December 31, 2017, compared to the six months ended December 31, 2016, driven by year over year mix of boats sold, strong demand for optional features and year over year price increases.

Cost of Sales

Cost of sales for the six months ended December 31, 2017, increased $71.4 million, or 74.4%, to $167.5 million as compared to the six months ended December 31, 2016. 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 the six months ended December 31, 2017, increased $16.8 million, or 50.0%, to $50.4 million compared to the six months ended December 31, 2016. 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 for the six months ended December 31, 2017 decreased 280 basis points from 25.9% to 23.1% over the same period in the

prior fiscal year related due to the acquisition of Cobalt models, 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 expenses for the six month period ended December 31, 2017, increased $2.1 million or 46.8%, compared to the six months ended December 31, 2016. As a percentage of sales, selling and marketing expenses decreased 45 basis points over the same period in the prior fiscal year. General and administrative expenses for the six months ended December 31, 2017, increased $5.0 million, or 52.5%, to $14.5 million as compared to the six months ended December 31, 2016, largely due to higher general and administrative expenses attributable to Cobalt, which we acquired in July 2017, higher development costs associated with our engines vertical integration initiative, and expenses related to the integration of Cobalt. In addition, during the second quarter of fiscal 2017, there was a decrease of approximately $1.4 million in the Marine Power litigation judgment following our appeal of the verdict and court ruling amending the judgment from $3.3 million to $1.9 million in December 2016. We had initially taken a charge relating to the original judgment for $3.3 million during the three months ended June 30, 2016. Amortization expense for the six month period ended December 31, 2017, increased $1.5 million or 137.7% when compared to the six months ended December 31, 2016, due to additional amortization from intangible assets acquired as a result of the Cobalt acquisition.

Other Income (Expense), Net

Other income (expense), net for the six month period ended December 31, 2017, increased $24.9 million as compared to the six months ended December 31, 2016. The increase in other income (expense), net was primarily due to a $27.7 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 April 2017 and higher interest expense on our term loan, which had an overall higher average principal balance for the six month period ended December 31, 2017,compared to the six months ended December 31, 2016.

Provision for Income Taxes

Our provision for income taxes for the six months ended December 31, 2017, increased $44.2 million, to $50.3 million compared to the six months ended December 31, 2016. 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 2018 will approximate 28%. This blended statutory rate was applied to year-to-date earnings. For the six months ended December 31, 2017, we also recorded a non-cash provisional adjustment to income tax expense of $47.0 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 98.4% for the six months ended December 31, 2017 compared to 33.8%, for the six months ended December 31, 2016. For the six months ended December 31, 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. Our effective tax rate also reflects the impact of the Company's share of the LLC's permanent items such as stock compensation expense attributable to profits interests.

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 unaudited condensed consolidated statements of operations and comprehensive income is computed by multiplying pre-tax income for the six month period ended December 31, 2017, by the percentage ownership in the LLC not directly attributable to us. For the six months ended December 31, 2017 and 2016, the weighted average non-controlling interest attributable to ownership interests in the LLC not directly attributable to us was 5.8% and 7.3%, 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 (loss) income before interest expense, income taxes, depreciation, amortization and non-cash, non-recurring or non-operating expenses, including certain professional fees, 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 (loss) 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 (loss) 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 (loss) 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 (loss) income as determined in accordance with GAAP to adjusted EBITDA and adjusted EBITDA margin for the periods indicated (dollars in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net (loss) income	$(5,584)	$7,737	$830	$11,963
Provision for income taxes [1]	50,558	3,945	50,300	6,092
Interest expense	1,014	37	3,213	467
Depreciation	1,687	1,026	3,417	1,994
Amortization	1,304	549	2,612	1,099
Professional fees [2]	—	917	26	1,986
Marine Power litigation judgment [3]	—	(1,330)	—	(1,330)
Acquisition and integration related expenses [4]	322	—	2,137	—
Stock-based compensation expense [5]	488	280	850	745
Engine development [6]	1,140	460	2,587	460
Adjustments to tax receivable agreement liability [7]	(30,317)	—	(27,702)	—
Adjusted EBITDA	$20,612	$13,621	$38,270	$23,476
Adjusted EBITDA Margin	18.0 %	20.1 %	17.6 %	18.1 %

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(1) Provision for income taxes for the three and six months ended December 31, 2017 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. As a result of the Tax Act, for the three and six months ended December 31, 2017, we recorded a non-cash provisional adjustment to income tax expense of $47.0 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. See Note 11 to our unaudited condensed consolidated financial statements

(2) For the six months ended December 31, 2017 and three and six months ended December 31, 2016, represents legal and advisory fees related to our litigation with MasterCraft Boat Company, LLC ("MasterCraft"). For more information about the legal proceedings, refer to Note 14 of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

(3) Represents the reduction in a one-time charge related to a judgment rendered against us in connection with a lawsuit by Marine Power where the court amended the judgment to $1.9 million. See Note 14 of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

(4) Represents legal and advisory fees as well as integration related costs incurred in connection with our acquisition of Cobalt. Integration related expenses 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 2018.

(5) Represents equity-based incentives awarded to key 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, see Note 12 to our unaudited condensed consolidated financial statements.

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

(7) For the three and six months ended December 31, 2017, 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 unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

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Adjusted Fully Distributed Net Income

We define Adjusted Fully Distributed Net Income as net (loss) 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 Quarterly 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):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Reconciliation of numerator for net (loss) income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock:				
Net (loss) income attributable to Malibu Boats, Inc.	$(6,383)	$6,901	$(498)	$10,681
Provision for income taxes [1]	50,558	3,945	50,300	6,092
Professional fees [2]	—	917	26	1,986
Acquisition and integration related expenses [3]	1,017	—	3,523	—
Fair market value adjustment for interest rate swap [4]	(172)	(580)	(203)	(825)
Stock-based compensation expense [5]	488	280	850	745
Marine Power litigation judgment [6]	—	(1,330)	—	(1,330)
Engine development [7]	1,140	460	2,587	460
Adjustments to tax receivable agreement liability [8]	(30,317)	—	(27,702)	—
Net income attributable to non-controlling interest [9]	799	836	1,328	1,282
Fully distributed net income before income taxes	17,130	11,429	30,211	19,091
Income tax expense on fully distributed income before income taxes [10]	5,704	4,057	10,060	6,777
Adjusted fully distributed net income	$11,426	$7,372	$20,151	$12,314

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Reconciliation of denominator for net (loss) 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:	20,436,110	17,786,122	19,819,438	17,760,256
Adjustments to weighted average shares of Class A Common Stock:				
Weighted-average LLC units held by non-controlling unit holders [11]	1,170,314	1,408,065	1,211,709	1,410,881
Weighted-average unvested restricted stock awards issued to management [12]	126,447	108,531	128,199	90,974
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:	21,732,871	19,302,718	21,159,346	19,262,111

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:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net (loss) income available to Class A Common Stock per share	$(0.31)	$0.39	$(0.03)	$0.60
Impact of adjustments:				
Provision for income taxes [1]	2.47	0.22	2.54	0.34
Professional fees [2]	—	0.05	—	0.11
Acquisition and integration related expenses [3]	0.05	—	0.18	—
Fair market value adjustment for interest rate swap [4]	(0.01)	(0.03)	(0.01)	(0.05)
Stock-based compensation expense [5]	0.02	0.02	0.04	0.04
Marine Power litigation judgment [6]	—	(0.07)	—	(0.07)
Engine development [7]	0.06	0.03	0.13	0.03
Adjustment to tax receivable agreement liability [8]	(1.48)	—	(1.40)	—
Net income attributable to non-controlling interest [9]	0.04	0.05	0.07	0.07
Fully distributed net income per share before income taxes	0.84	0.66	1.52	1.07
Impact of income tax expense on fully distributed income before income taxes [10]	(0.28)	(0.23)	(0.51)	(0.38)
Impact of increased share count [13]	(0.03)	(0.05)	$(0.06)	$(0.05)
Adjusted Fully Distributed Net Income per Share of Class A Common Stock	$0.53	$0.38	$0.95	$0.64

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(1) Provision for income taxes for the three and six months ended December 31, 2017 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. As a result of the Tax Act, for the three and six months ended December 31, 2017, we recorded a non-cash provisional adjustment to income tax expense of $47.0 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. See Note 11 to our unaudited condensed consolidated financial statements

(2) For the six months ended December 31, 2017 and three and six months ended December 31, 2016, represents legal and advisory fees related to our litigation with MasterCraft Boat Company, LLC ("MasterCraft"). For more information about the legal proceedings, refer to Note 14 of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

(3) Represents legal and advisory fees as well as integration related costs incurred in connection with our acquisition of Cobalt. Integration related expenses 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 2018. In addition, integration related expenses includes $0.7 million in depreciation and amortization associated with our fair value step up of property, plant and equipment and intangibles acquired in connection with the acquisition of Cobalt.

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

(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. See Note 12 to our unaudited condensed consolidated financial statements.

(6) Represents the reduction in a one-time charge related to a judgment rendered against us in connection with a lawsuit by Marine Power where the court amended the judgment to $1.9 million. See Note 14 of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

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

(8) For the three and six months ended December 31, 2017, 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 unaudited condensed consolidated financial statements included elsewhere in this Quarterly 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 33.3% and 35.5% of income before income taxes for the three months ended December 31, 2017 and 2016, respectively, 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. The decrease in the normalized annual effective income tax rate to 33.3% for the three months ended December 31, 2017, is primarily the result of an updated blended state rate, which considers the impacts of the Cobalt acquisition as well as a recent law change in Tennessee. The assumed annual effective income tax rate for the three months ended December 31, 2017 does not reflect the blended statutory rate of 28% used in our consolidated financial statements or any other impact of the Tax Act because the lower corporate tax rate of 21% was not effective until January 1, 2018. For periods beginning after January 1, 2018, our estimated normalized annual effective income tax rate is expected to range between 23% and 24% in computing our Adjusted Fully Distributed Net Income per share as a result of the Tax Act.

(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.

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Liquidity and Capital Resources

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

	Six Months Ended December 31,	
	2017	2016
Total cash provided by (used in):		
Operating activities	$27,025	$22,247
Investing activities	(130,475)	(5,427)
Financing activities	107,340	(16,905)
Impact of currency exchange rates on cash balances	19	73
Increase (decrease) in cash	$3,909	$(12)

Comparison of the Six Months Ended December 31, 2017 to the Six Months Ended December 31, 2016

Operating Activities

Net cash provided by operating activities was $27.0 million for the six months ended December 31, 2017, compared to net cash provided by operating activities of $22.2 million for the six months ended December 31, 2016, an increase of $4.8 million. The increase in cash provided by operating activities primarily resulted from an increase of $11.4 million due to increases in net income (after consideration of non-cash items included in net income, including an adjustment to our tax receivable agreement liability and an adjustment to our deferred tax assets), offset by a decrease in operating assets and liabilities of $6.6 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 $130.5 million for the six months ended December 31, 2017, compared to $5.4 million for the six months ended December 31, 2016, an increase of $125.0 million. Cash used for investing activities for the six months ended December 31, 2017 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 (used in) financing activities increased $124.2 million to $107.3 million for the six months ended December 31, 2017, compared to cash used of $16.9 million for the six months ended December 31, 2016. During the six months ended December 31, 2017, 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 six months ended December 31, 2017, we paid $0.6 million in distributions to LLC unit holders. For the six months ended December 31, 2016, we made principal payments of $16.1 million on the term loan and paid $0.6 million in distributions to LLC unit holders.

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 and a revolving credit facility of up to $35.0 million. 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 increase the amount available under the revolving credit facility by, or 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 or revolving commitments.

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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 December 31, 2017, the interest rate on our term loans was 3.42%. 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. 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 December 31, 2017, the outstanding principal amount of our term loans was $110.0 million.

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. 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 $4.3 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, 2018. Management expects minimal effect on our

future liquidity and capital resources.

Management expects our capital expenditures for fiscal year 2018 to be higher than our 2017 capital expenditures primarily driven by expected investment in our engine facility and our acquisition of Cobalt. With respect to our engine vertical integration strategy, we expect a total investment, including investments already made to date, through expenditures, working capital, and capital expenses of approximately $18.0 million through fiscal year 2019, which we intend to finance with cash from operations and our revolving credit facility.

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Contractual Obligations and Commitments

Since June 30, 2017, we received proceeds from our term loan of $105.0 million which was used to fund the acquisition of Cobalt and we repaid $50.0 million on our outstanding term debt in August 2017, resulting in $110.0 million outstanding under term loans as of December 31, 2017. We also have had adjustments to the amounts we expect to pay under our tax receivables agreement as a result of the enactment of the Tax Act in December 2017 and the completion of the acquisition of Cobalt in July 2017. As of December 31, 2017, our continuing contractual obligations were as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Term debt [1]	$110,000	$—	$—	$110,000	$—
Interest expense [2]	18,198	4,097	8,113	5,988	—
Operating leases [3]	22,491	2,323	4,624	4,618	10,926
Purchase obligations [4]	53,230	42,407	10,823	—	—
Payments pursuant to tax receivable agreement [5]	55,848	4,323	7,133	6,891	37,501
Total	$259,767	$53,150	$30,693	$127,497	$48,427

(1) Principal payments on our outstanding term loans under our Credit Agreement. We had no amounts outstanding under our revolving credit facility as of December 31, 2017. We may borrow up to $35.0 million under our revolving credit facility, which matures on July 1, 2022.

(2) Interest payments on our outstanding term loans under our Credit Agreement.

(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.

Off Balance Sheet Arrangements

In connection with our dealers' wholesale floor plan financing of boats, we have entered into repurchase arrangements 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 arrangements are customary in the industry and our exposure to loss under such arrangements is limited by the resale value of the inventory which is required to be repurchased. Refer to Note 14 of our unaudited condensed consolidated financial statements for further information on repurchase commitments.

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

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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 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. Accordingly, we could remain an "emerging growth company" until as late as June 30, 2019.
Critical Accounting Policies
On July 6, 2017, we acquired all the outstanding units in Cobalt Boats, LLC and allocated the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Our valuation procedures include consultation with an independent adviser. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing certain intangible assets include but are not limited to projected future cash flows, dealer attrition and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates and changes could be significant. We will finalize these amounts no later than one year from the acquisition date.
Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 3 of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.
As of December 31, 2017, there were no other significant changes in or changes in the application of our critical accounting policies or estimation procedures from those presented in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017.
Item 3. Quantitative and Qualitative Disclosures About Market Risk
Refer to our Annual Report on Form 10-K for the year ended June 30, 2017, for a complete discussion on the Company’s market risk. There have been no material changes in market risk from those disclosed in the Company's Form 10-K for the year ended June 30, 2017.
Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures
We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this Quarterly Report, we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures. Based upon this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2017.

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Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2017, we completed the acquisition of Cobalt. Prior to the acquisition, Cobalt was a privately-held company and was not subject to the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC, or other corporate governance requirements applicable to public reporting companies. As part of our ongoing integration activities, we are continuing to incorporate our controls and procedures into Cobalt and to augment our company-wide controls to reflect the risks that may be inherent in acquisitions of privately-held companies.

Other than our integration of Cobalt, there have been no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II - Other Information

Item 1. Legal Proceedings

The discussion of legal matters under the section entitled "Legal Proceedings" is incorporated by reference from Note 14 of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report.

Item 1A. Risk Factors

During the quarter ended December 31, 2017, there were no material changes to the risk factors discussed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended June 30, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

On November 10, 2017, in connection with the exchange of limited liability company interests of the LLC by a member of the LLC, the Company issued a total of 40,000 shares of its 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 November 29, 2017, in connection with the exchange of limited liability company interests of the LLC by members of the LLC, the Company issued a total of 48,989 shares of its Class A Common Stock, par value $0.01 per share for nominal consideration to such members in reliance on the exemption under Section 4(a)(2) of the Securities Act.

On November 30, 2017, in connection with the exchange of limited liability company interests of the LLC by a member of the LLC, the Company issued a total of 1,011 shares of its 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 December 11, 2017, in connection with the exchange of limited liability company interests of the LLC by a member of the LLC, the Company issued a total of 40,000 shares of its 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 December 12, 2017, in connection with the exchange of limited liability company interests of the LLC by a member of the LLC, the Company issued a total of 5,000 shares of its 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.

We did not repurchase any shares of Class A Common Stock during the quarter ended December 31, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of Malibu Boats, Inc. [1]
3.2	Bylaws of Malibu Boats, Inc. [1]
3.3	Certificate of Formation of Malibu Boats Holdings, LLC [1]
3.4	First Amended and Restated Limited Liability Company Agreement of Malibu Boats Holdings, LLC, dated as of February 5, 2014 [2]
3.4.1	First Amendment, dated as of February 5, 2014, to First Amended and Restated Limited Liability Company Agreement of Malibu Boats Holdings, LLC [3]
3.4.2	Second Amendment, dated as of June 27, 2014, to First Amended and Restated Limited Liability Company Agreement of Malibu Boats Holdings, LLC [4]
4.1	Form of Class A Common Stock Certificate [1]
4.2	Form of Class B Common Stock Certificate [1]
4.3	Exchange Agreement, dated as of February 5, 2014, by and among Malibu Boats, Inc. and the Members of Malibu Boats Holdings, LLC [2]
4.4	Tax Receivable Agreement, dated as of February 5, 2014, by and among Malibu Boats, Inc., Malibu Boats Holdings, LLC and the Other Members of Malibu Boats Holdings, LLC [2]
31.1	Certificate of the Chief Executive Officer of Malibu Boats, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certificate of the Chief Financial Officer of Malibu Boats, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of the Chief Executive Officer and Chief Financial Officer of Malibu Boats, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

(1) Filed as an exhibit to Amendment No. 1 to the Company’s registration statement on Form S-1 (Registration No. 333-192862) filed on January 8, 2014.

(2) Filed as an exhibit to the Company’s Current Report on Form 8-K (File No. 001-36290) filed on February 6, 2014.

(3) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q/A (File No. 001-36290) filed on May 13, 2014.

(4) Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 001-36290) filed on June 27, 2014.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 9, 2018 MALIBU BOATS, INC.

By:	/s/ Jack Springer Jack Springer, Chief Executive Officer (Principal Executive Officer)
By:	/s/ Wayne Wilson Wayne Wilson, Chief Financial Officer (Principal Financial Officer)