
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark one) **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended April 2, 2016
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 001-37444

FITBIT, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

405 Howard Street

San Francisco, California

(Address of principal executive offices)

20-8920744

(I.R.S. Employer Identification No.)

94105

(Zip Code)

(415) 513-1000

(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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Yes

No

As of April 30, 2016, there were 155,202,518 shares of the registrant's Class A common stock outstanding and 62,744,332 million shares of the registrant's Class B common stock outstanding.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- *continued investments in research and development, sales and marketing and international expansion and the impact of those investments;*
- *trends in our operating expenses, including personnel costs, research and development expense, sales and marketing expense and general and administrative expense;*
- *competitors and competition in our markets;*
- *our ability to develop new products and services or improve our existing products and services;*
- *our ability to expand brand awareness;*
- *our reliance on third-party suppliers, contract manufacturers (particularly Flextronics) and logistics providers and our limited control over such parties;*
- *trends in our quarterly operating results and other operating metrics;*
- *trends in revenue, costs of revenue and gross margin;*
- *legal proceedings and the impact of such proceedings;*
- *the effect of seasonality on our results of operations;*
- *our ability to attract and retain highly skilled employees;*
- *our expectation to derive the substantial majority of our revenue from sales of devices;*
- *growing our sales of subscription-based services ;*
- *the impact of foreign currency exchange rates;*
- *releasing and shipping new products and services, and the timing thereof;*
- *the sufficiency of our existing cash and cash equivalent balances and cash flow from operations to meet our working capital and capital expenditure needs for at least the next 12 months; and*
- *general market, political, economic and business conditions .*

We caution you that the foregoing list does not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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FITBIT, INC.
Condensed Consolidated Balance Sheets
(In thousands, except par value per share amounts)
(unaudited)

	April 2, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 722,062	\$ 535,846
Marketable securities	69,652	128,632
Accounts receivable, net	339,669	469,260
Inventories	212,092	178,146
Prepaid expenses and other current assets	60,006	43,530
Total current assets	1,403,481	1,355,414
Property and equipment, net	51,579	44,501
Goodwill	22,157	22,157
Intangible assets, net	11,683	12,216
Deferred tax assets	87,601	83,020
Other assets	1,773	1,758
Total assets	\$ 1,578,274	\$ 1,519,066
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 238,696	\$ 260,842
Accrued liabilities	232,427	194,977
Deferred revenue	50,929	44,448
Fitbit Force recall reserve	4,339	5,122
Income taxes payable	1,671	2,868
Total current liabilities	528,062	508,257
Other liabilities	36,886	29,358
Total liabilities	564,948	537,615
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Class A and Class B common stock	22	21
Additional paid-in capital	762,776	737,820
Accumulated other comprehensive income (loss)	(3,426)	691
Retained earnings	253,954	242,919
Total stockholders' equity	1,013,326	981,451
Total liabilities and stockholders' equity	\$ 1,578,274	\$ 1,519,066

The accompanying notes are an integral part of these condensed consolidated financial statements.

FITBIT, INC.
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended	
	April 2, 2016	March 31, 2015
Revenue	\$ 505,356	\$ 336,754
Cost of revenue	271,601	167,545
Gross profit	233,755	169,209
Operating expenses:		
Research and development	72,248	22,426
Sales and marketing	107,051	43,867
General and administrative	35,702	12,981
Total operating expenses	215,001	79,274
Operating income	18,754	89,935
Interest income (expense), net	582	(467)
Other income (expense), net	1,568	(13,077)
Income before income taxes	20,904	76,391
Income tax expense	9,869	28,394
Net income	11,035	47,997
Less: noncumulative dividends to preferred stockholders	—	(1,314)
Less: undistributed earnings to participating securities	—	(36,060)
Net income attributable to common stockholders—basic	11,035	10,623
Add: adjustments for undistributed earnings to participating securities	—	4,992
Net income attributable to common stockholders—diluted	\$ 11,035	\$ 15,615
Net income per share attributable to common stockholders:		
Basic	\$ 0.05	\$ 0.26
Diluted	\$ 0.05	\$ 0.22
Shares used to compute net income per share attributable to common stockholders:		
Basic	216,043	41,201
Diluted	242,009	70,289

The accompanying notes are an integral part of these condensed consolidated financial statements.

FITBIT, INC.
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(unaudited)

	Three Months Ended	
	April 2, 2016	March 31, 2015
Net income	\$ 11,035	\$ 47,997
Other comprehensive income:		
Cash flow hedges:		
Change in unrealized gain (loss) on cash flow hedges, net of tax benefit of \$1,715 and \$ —, respectively	(2,533)	—
Less: reclassification for realized net gains included in net income, net of tax expense of \$725 and \$ —, respectively	(1,571)	—
Net change, net of tax	(4,104)	—
Change in foreign currency translation adjustment, net of tax	(72)	44
Change in unrealized loss on available-for-sale investments, net of tax	59	—
Comprehensive income	<u>\$ 6,918</u>	<u>\$ 48,041</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FITBIT, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Three Months Ended	
	April 2, 2016	March 31, 2015
Cash Flows from Operating Activities		
Net income	\$ 11,035	\$ 47,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for inventory obsolescence	231	1,761
Depreciation	6,475	3,363
Write-off of property and equipment	484	—
Amortization of intangible assets	533	106
Revaluation of redeemable convertible preferred stock warrant liability	—	10,335
Stock-based compensation	17,770	4,903
Deferred income taxes	(4,581)	(3,875)
Excess of tax benefit from stock-based compensation	(5,977)	—
Other	547	234
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	129,218	77,371
Inventories	(34,149)	(24,198)
Prepaid expenses and other assets	(16,547)	(8,220)
Fitbit Force recall reserve	(783)	(7,371)
Accounts payable	(16,317)	(59,478)
Accrued liabilities and other liabilities	38,729	(4,826)
Deferred revenue	6,481	7,467
Income taxes payable	4,317	(12,909)
Net cash provided by operating activities	137,466	32,660
Cash Flows from Investing Activities		
Purchase of property and equipment	(16,676)	(5,009)
Purchases of marketable securities	(62,576)	—
Maturities of marketable securities	121,598	—
Acquisition, net of cash acquired	—	(11,037)
Net cash provided by (used in) investing activities	42,346	(16,046)
Cash Flows from Financing Activities		
Payments of offering costs	(1,236)	(1)
Proceeds from exercise of stock options	2,374	70
Taxes paid related to net share settlement of restricted stock units	(574)	—
Excess of tax benefit from stock-based compensation	5,977	—
Proceeds from issuance of debt and revolving credit facility, net debt discount	—	160,000
Repayment of debt	—	(134,503)
Net cash provided by financing activities	6,541	25,566
Net increase in cash and cash equivalents	186,353	42,180
Effect of exchange rate on cash and cash equivalents	(137)	43
Cash and cash equivalents at beginning of period	535,846	195,626
Cash and cash equivalents at end of period	<u>\$ 722,062</u>	<u>\$ 237,849</u>
Supplemental Disclosure		
Cash paid for interest	\$ 106	\$ 84
Cash paid for income taxes	\$ 15,404	\$ 44,045
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Purchase of property and equipment included in accounts payable and accruals	\$ 7,890	\$ 2,368
Deferred offering costs included in accounts payable and accruals	\$ —	\$ 2,501
Issuance of common stock in connection with acquisitions	\$ —	\$ 13,630

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited. The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements of the Company. The accompanying condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP, for interim financial information, and in management's opinion, includes all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company's financial position, its results of operations, and cash flows for the interim periods presented. The results of operations for the three months ended April 2, 2016 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the Securities and Exchange Commission on February 29, 2016. There have been no significant changes in the Company's accounting policies from those disclosed in its Annual Report on Form 10-K.

The Company's fiscal year ends on December 31 of each year. In the first quarter of 2016, the Company adopted a 4-4-5 week quarterly calendar, which, for the 2016 fiscal year, is comprised of four fiscal quarters ending on April 2, 2016, July 2, 2016, October 1, 2016 and December 31, 2016. The Company did not adjust operating results for quarters prior to 2016. There were 93 days and 90 days in the three months ended April 2, 2016 and March 31, 2015, respectively.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the condensed consolidated financial statements and accompanying notes. The primary estimates and assumptions made by management related to revenue recognition, reserves for sales returns and incentives, reserves for warranty, valuation of stock options, fair value of derivative assets and liabilities, allowance for doubtful accounts, inventory valuation, accruals for the Fitbit Force recall, fair value of goodwill and acquired tangible and intangible assets and liabilities assumed during acquisitions, the number of reporting segments, the recoverability of intangible assets and their useful lives, contingencies, and the valuations of deferred income tax assets and uncertain tax positions. Actual results could differ from those estimates, and such differences may be material to the condensed consolidated financial statements.

Out-of-Period Adjustment

During the first quarter of 2016, the Company identified an error, which resulted in an understatement of income tax expense by \$3.0 million for the year ended December 31, 2015. The Company recorded an out-of-period adjustment to correct the error in the quarter ended April 2, 2016. The Company assessed the materiality of this error and concluded the error was not material to 2015 consolidated financial statements and is not expected to be material to 2016 consolidated financial statements, and therefore, the Company recorded the correction in the first quarter of 2016.

Stock Split

In May 2015, the Company effected a 3 -for- 2 stock split of all outstanding shares of the Company's capital stock, including common stock and redeemable convertible preferred stock. All share, option, RSU, warrant, and per share information presented in the condensed consolidated financial statements has been adjusted to reflect the stock split on a retroactive basis for all periods presented and all share information is rounded down to the nearest whole share after reflecting the stock split.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09 (ASC 606), *Revenue from Contracts with Customers*, which affects any entity that either enters into contracts with customers to transfer goods and services or enters into contracts for the transfer of nonfinancial assets. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the currently effective guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In July 2015, the FASB approved a one-year deferral of the effective date of the standard. ASU 2014-09 will become effective for the Company on January 1, 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. Early adoption is permitted but not before the original effective date of annual periods beginning after December 15, 2016. In April 2016, the FASB issued ASU 2016-10, which clarifies guidance on identifying performance obligations and licensing implementation. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU requires lease assets and lease liabilities arising from leases, including operating leases, to be recognized on the balance sheet. ASU 2016-02 will become effective for the Company on January 1, 2019, and requires adoption using a modified retrospective approach. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation — Stock Compensation (Topic 718)*. This ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 will become effective for the Company on January 1, 2017 and early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

2. Fair Value Measurements

The carrying values of the Company's accounts receivable and accounts payable approximated their fair values due to the short period of time to maturity or repayment.

The following tables set forth the Company's financial instruments that were measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands):

	April 2, 2016		
	Level 1	Level 2	Total
Assets:			
Money market funds	\$ 457,888	\$ —	\$ 457,888
U.S. government agencies	—	2,244	2,244
Corporate debt securities	—	169,136	169,136
Derivative assets	—	5,674	5,674
Total	<u>\$ 457,888</u>	<u>\$ 177,054</u>	<u>\$ 634,942</u>
Liabilities:			
Derivative liabilities	\$ —	\$ 11,947	\$ 11,947
	December 31, 2015		
	Level 1	Level 2	Total
Assets:			
Money market funds	\$ 248,128	\$ —	\$ 248,128
U.S. government agencies	—	113,314	113,314
Corporate debt securities	—	193,964	193,964
Derivative assets	—	6,002	6,002
Total	<u>\$ 248,128</u>	<u>\$ 313,280</u>	<u>\$ 561,408</u>
Liabilities:			
Derivative liabilities	\$ —	\$ 2,640	\$ 2,640

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

The fair value of the Company's Level 1 financial instruments is based on quoted market prices in active markets for identical instruments. The fair value of the Company's Level 2 financial instruments is based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

In addition, Level 2 assets and liabilities include derivative financial instruments associated with hedging activity, which are further discussed in Note 3. Derivative financial instruments are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date using inputs such as spot rates and forward rates. There is not an active market for each hedge contract, but the inputs used to calculate the value of the instruments are tied to active markets.

There were no Level 3 assets or liabilities as of April 2, 2016 and December 31, 2015. There have been no transfers between fair value measurement levels during the three months ended April 2, 2016 and March 31, 2015.

3. Financial Instruments

Cash, Cash Equivalents, and Marketable Securities

The Company's marketable securities are classified as available-for-sale as of the balance sheet date and are reported at fair value with unrealized gains and losses reported, net of tax, as a separate component of accumulated other comprehensive income (loss) in stockholders' equity. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income (expense), net as incurred.

Investments are reviewed periodically to identify potential other-than-temporary impairments. No impairment loss has been recorded on the securities included in the tables below as the Company believes that the decrease in fair value of these securities is temporary and expects to recover up to, or beyond, the initial cost of investment for these securities.

The following table sets forth cash, cash equivalents, and marketable securities as of April 2, 2016 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	\$ 162,446	\$ —	\$ —	\$ 162,446	\$ 162,446	\$ —
Money market funds	457,888	—	—	457,888	457,888	—
U.S. government agencies	2,244	—	—	2,244	2,244	—
Corporate debt securities	169,132	12	(8)	169,136	99,484	69,652
Total	<u>\$ 791,710</u>	<u>\$ 12</u>	<u>\$ (8)</u>	<u>\$ 791,714</u>	<u>\$ 722,062</u>	<u>\$ 69,652</u>

The following table sets forth cash, cash equivalents, and marketable securities as of December 31, 2015 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	\$ 109,072	\$ —	\$ —	\$ 109,072	\$ 109,072	\$ —
Money market funds	248,128	—	—	248,128	248,128	—
U.S. government agencies	113,315	3	(4)	113,314	63,464	49,850
Corporate debt securities	194,018	1	(55)	193,964	115,182	78,782
Total	<u>\$ 664,533</u>	<u>\$ 4</u>	<u>\$ (59)</u>	<u>\$ 664,478</u>	<u>\$ 535,846</u>	<u>\$ 128,632</u>

All available-for-sale investments as of April 2, 2016 have a contractual maturity of one year or less. The gross unrealized gains or losses on marketable securities as of April 2, 2016 and December 31, 2015 were not material. There were no available-for-sale investments as of April 2, 2016 and December 31, 2015 that have been in a continuous unrealized loss position for greater than twelve months.

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

Derivative Financial Instruments

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and various foreign currencies. In order to manage this risk, the Company may hedge a portion of its foreign currency exposures related to outstanding monetary assets and liabilities as well as forecasted revenues and expenses, using foreign currency exchange forward or option contracts. In general, the market risk related to these contracts is offset by corresponding gains and losses on the hedged transactions. The Company does not enter into derivative contracts for trading or speculative purposes.

Cash Flow Hedges

Beginning in the third quarter of 2015, the Company has entered into foreign currency derivative contracts designated as cash flow hedges to hedge certain forecasted revenue and expense transactions denominated in currencies other than the U.S. dollar. The Company's cash flow hedges consist of forward contracts with maturities of 12 months or less.

The Company periodically assesses the effectiveness of its cash flow hedges. Effectiveness represents a derivative instrument's ability to generate offsetting changes in cash flows related to the hedged risk. All elements of the hedged transaction are included in the effectiveness assessment. The Company records the gains or losses, net of tax, related to the effective portion of its cash flow hedges as a component of accumulated other comprehensive income (loss) in stockholders' equity and subsequently reclassifies the gains or losses into revenue and operating expenses when the underlying hedged transactions are recognized. The Company records the gains or losses related to the ineffective portion of the cash flow hedges, if any, immediately in other income (expense), net. If the hedged transaction becomes probable of not occurring, the corresponding amounts in accumulated other comprehensive income (loss) would immediately be reclassified to other income (expense), net. Cash flows related to the Company's cash flow hedging program are recognized as cash flows from operating activities in its statements of cash flows.

The Company had outstanding contracts with a total notional amount of \$281.0 million and \$43.9 million in cash flow hedges for forecasted revenue and expense transactions, respectively, as of April 2, 2016, and \$254.1 million in cash flow hedges for forecasted revenue transactions as of December 31, 2015.

Balance Sheet Hedges

The Company enters into foreign exchange contracts to hedge certain monetary assets and liabilities that are denominated in currencies other than the functional currency of its subsidiaries. These foreign exchange contracts are carried at fair value, do not qualify for hedge accounting treatment, and are not designated as hedging instruments. Changes in the value of the foreign exchange contracts are recognized in other income (expense), net and offset the foreign currency gain or loss on the underlying net monetary assets or liabilities.

The Company had outstanding balance sheet hedges with a total notional amount of \$98.9 million and \$104.8 million as of April 2, 2016 and December 31, 2015, respectively.

In the first quarter of 2016, the Company corrected the allocation of total notional amounts of outstanding contracts of \$57.6 million for an overstatement of cash flow hedges and a corresponding understatement of balance sheet hedges as of December 31, 2015. The Company does not consider this correction to be material, and there was no impact to the consolidated financial statements.

Fair Value of Foreign Currency Derivatives

The foreign currency derivative contracts that were not settled at the end of the period are recorded at fair value, on a gross basis, in the condensed consolidated balance sheets. The following table presents the fair value of the Company's foreign currency derivative contracts as of the periods presented (in thousands):

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

	Balance Sheet Location	April 2, 2016		December 31, 2015	
		Fair Value Derivative Assets	Fair Value Derivative Liabilities	Fair Value Derivative Assets	Fair Value Derivative Liabilities
Cash flow designated hedges	Prepaid expenses and other current assets	\$ 4,958	\$ —	\$ 3,116	\$ —
Cash flow designated hedges	Accrued liabilities	—	7,496	—	1,327
Hedges not designated	Prepaid expenses and other current assets	716	—	2,886	—
Hedges not designated	Accrued liabilities	—	4,451	—	1,313
Total fair value of derivative instruments		\$ 5,674	\$ 11,947	\$ 6,002	\$ 2,640

Financial Statement Effect of Foreign Currency Derivative Contracts

The following table presents the pre-tax impact of the Company's foreign currency derivative contracts on other comprehensive income, or OCI, and the condensed consolidated statements of operations for the periods presented (in thousands):

	Income Statement Location	Three Months Ended	
		April 2, 2016	March 31, 2015
Foreign exchange cash flow hedges			
Gain (loss) recognized in OCI – effective portion		\$ (4,248)	\$ —
Gain (loss) reclassified from OCI into income – effective portion	Revenue	(169)	—
Gain (loss) reclassified from OCI into income – effective portion	Operating expenses	1,015	—
Gain (loss) recognized in income – ineffective portion	Other income (expense), net	(90)	—
Foreign exchange balance sheet hedges			
Gain (loss) recognized in income	Other income (expense), net	\$ (1,437)	\$ 2,020

As of April 2, 2016, all net derivative gains related to the Company's cash flow hedges will be reclassified from OCI into net income within the next 12 months.

Offsetting of Foreign Currency Derivative Contracts

The Company presents its derivative assets and derivative liabilities at gross fair values in the condensed consolidated balance sheets. The Company generally enters into master netting arrangements, which mitigate credit risk by permitting net settlement of transactions with the same counterparty. The Company is not required to pledge, and is not entitled to receive, cash collateral related to these derivative instruments.

The following table sets forth the available offsetting of net derivative assets under the master netting arrangements as of April 2, 2016 and December 31, 2015 (in thousands):

	As of April 2, 2016						
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in Condensed Consolidated Balance Sheets			Net Amount
				Financial Instruments	Cash Collateral Received		
Foreign exchange contracts	\$ 5,674	\$ —	\$ 5,674	\$ 576	\$ —	\$ —	\$ 5,098

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

As of December 31, 2015						
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
Foreign exchange contracts	\$ 6,002	\$ —	\$ 6,002	\$ 150	\$ —	\$ 5,852

The following table sets forth the available offsetting of net derivative liabilities under the master netting arrangements as of April 2, 2016 and December 31, 2015 (in thousands):

As of April 2, 2016						
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Foreign exchange contracts	\$ 11,947	\$ —	\$ 11,947	\$ 576	\$ —	\$ 11,371

As of December 31, 2015						
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Presented in Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Foreign exchange contracts	\$ 2,640	\$ —	\$ 2,640	\$ 150	\$ —	\$ 2,490

In the first quarter of 2016, the Company corrected in the tables above an overstatement of the gross amounts offset in condensed consolidated balance sheets and a corresponding understatement of the net amount for the net derivative assets and net derivative liabilities in the amount of \$2.0 million as of December 31, 2015. The Company does not consider this correction to be material, and there was no impact to the consolidated financial statements.

4. Balance Sheet Components

Revenue Reserve

Revenue returns reserve activities were as follows (in thousands):

	Three Months Ended	
	April 2, 2016	March 31, 2015
Beginning balances	\$ 74,045	\$ 26,559
Increases	34,215	20,493
Returns taken	(52,385)	(20,690)
Ending balances	\$ 55,875	\$ 26,362

Inventories

Inventories consisted of the following (in thousands):

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

	April 2, 2016	December 31, 2015
Components	\$ 2,961	\$ 5,359
Finished goods	209,131	172,787
Total inventories	<u>\$ 212,092</u>	<u>\$ 178,146</u>

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	April 2, 2016	December 31, 2015
Prepaid income taxes	\$ 23,365	\$ 11,889
POP displays, net	13,196	9,990
Derivative assets	5,674	6,002
Prepaid expenses and other current assets	17,771	15,649
Total prepaid expenses and other current assets	<u>\$ 60,006</u>	<u>\$ 43,530</u>

Property and Equipment, Net

Property and equipment, net, consisted of the following (in thousands):

	April 2, 2016	December 31, 2015
Tooling and manufacturing equipment	\$ 61,470	\$ 53,092
Furniture and office equipment	7,211	6,809
Purchased and internally-developed software	4,490	3,794
Leasehold improvements	12,087	8,388
Total property and equipment	85,258	72,083
Less: Accumulated depreciation and amortization	(33,679)	(27,582)
Property and equipment, net	<u>\$ 51,579</u>	<u>\$ 44,501</u>

Goodwill and Intangible Assets

The carrying amount of goodwill was \$22.2 million as of April 2, 2016 and December 31, 2015, and there were no changes in the carrying amount during the three months ended April 2, 2016. See Note 11 for additional information.

The carrying amounts of the intangible assets as of April 2, 2016 and December 31, 2015 were as follows (in thousands, except useful life). See Note 11 for additional information.

	April 2, 2016			December 31, 2015			Weighted Average Remaining Useful Life (years)
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net	
Developed technology	\$ 12,640	\$ (1,893)	\$ 10,747	\$ 12,640	\$ (1,442)	\$ 11,198	6.0
Trademarks and other	1,278	(342)	936	1,278	(260)	1,018	3.9
Total intangible assets, net	<u>\$ 13,918</u>	<u>\$ (2,235)</u>	<u>\$ 11,683</u>	<u>\$ 13,918</u>	<u>\$ (1,702)</u>	<u>\$ 12,216</u>	

Total amortization expense related to intangible assets was \$0.5 million and \$0.1 million for the three months ended April 2, 2016 and March 31, 2015, respectively.

The estimated future amortization expense of acquired intangible assets to be charged to cost of revenue and operating expenses after April 2, 2016, is as follows (in thousands):

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

	<u>Cost of Revenue</u>	<u>Operating Expenses</u>	<u>Total</u>
Remaining 2016	\$ 1,355	\$ 199	\$ 1,554
2017	1,806	230	2,036
2018	1,806	230	2,036
2019	1,806	230	2,036
2020	1,806	47	1,853
Thereafter	2,168	—	2,168
Total intangible assets, net	<u>\$ 10,747</u>	<u>\$ 936</u>	<u>\$ 11,683</u>

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	<u>April 2, 2016</u>	<u>December 31, 2015</u>
Product warranty	\$ 50,669	\$ 40,212
Accrued sales and marketing	28,026	33,389
Inventory received but not billed	25,961	4,292
Marketable securities purchase in transit	24,600	—
Employee related liabilities	22,630	27,394
Accrued co-op advertising and marketing development funds	16,606	29,077
Accrued sales incentives	16,566	24,324
Accrued manufacturing expense and freight	13,212	10,723
Derivative liabilities	11,947	2,640
Sales taxes and VAT payable	7,074	8,349
Accrued legal fees	2,860	3,138
Customer deposits	1,785	2,062
Other	10,491	9,377
Accrued liabilities	<u>\$ 232,427</u>	<u>\$ 194,977</u>

Product warranty reserve activities were as follows (in thousands) ⁽¹⁾:

	<u>Three Months Ended</u>	
	<u>April 2, 2016</u>	<u>March 31, 2015</u>
Beginning balances	\$ 40,212	\$ 20,098
Charged to cost of revenue	27,544	7,497
Settlement of claims	(17,087)	(4,344)
Ending balances	<u>\$ 50,669</u>	<u>\$ 23,251</u>

(1) Does not include reserves established as a result of the recall of the Fitbit Force. See the section titled “—Fitbit Force Recall Reserve” for additional information regarding such reserves.

Fitbit Force Recall Reserve

In March 2014, the Company announced a recall for one of its products, the Fitbit Force, or Fitbit Force Recall. The product recall, which is regulated by the U.S. Consumer Product Safety Commission, covered all Fitbit Force units sold since the product was first introduced in October 2013. The product recall program has no expiration date.

As a result of the product recall, the Company established reserves that include cost estimates for customer refunds, logistics and handling fees for managing product returns and processing refunds, obsolescence of on-hand inventory, cancellation charges for existing purchase commitments and rework of component inventory with the contract manufacturer, write-offs of tooling and manufacturing equipment, and legal settlement costs.

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

Fitbit Force Recall reserve activities were as follows (in thousands):

	Three Months Ended	
	April 2, 2016	March 31, 2015
Beginning balances	\$ 5,122	\$ 22,476
Charged (benefit) to cost of revenue	—	(2,040)
Settlement of claims	(783)	(5,332)
Ending balances	<u>\$ 4,339</u>	<u>\$ 15,104</u>

Accumulated Other Comprehensive Income

The components and activity of accumulated other comprehensive income, or AOCI, net of tax, were as follows (in thousands):

	Unrealized Gains (Losses) on Cash Flow Hedges	Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Investments	Total
Balance at December 31, 2015	\$ 751	\$ (5)	\$ (55)	\$ 691
Other comprehensive income (loss) before reclassifications	(2,533)	(72)	59	(2,546)
Amounts reclassified from AOCI	(1,571)	—	—	(1,571)
Other comprehensive income (loss)	(4,104)	(72)	59	(4,117)
Balance at April 2, 2016	<u>\$ (3,353)</u>	<u>\$ (77)</u>	<u>\$ 4</u>	<u>\$ (3,426)</u>

Other comprehensive income consisted only of currency translation adjustments of an immaterial amount in the three months ended March 31, 2015 .

5. Long-Term Debt

2014 Credit Agreement

In August 2014, the Company entered into an amended and restated credit agreement, or Asset-Based Credit Facility, with a borrowing limit of \$180.0 million . The Asset-Based Credit Facility allowed the Company to borrow up to the lesser of (i) \$180.0 million , including up to \$50.0 million for the issuance of letters of credit and up to \$25.0 million for swing line loans and (ii) the borrowing base then in effect less the amount then outstanding under letters of credit and loans. During the three months ended March 31, 2015, the effective interest rate on the revolving line of credit was 4.25% . The Asset-Based Credit Facility was terminated in December 2015.

2014 Revolving Credit and Guarantee Agreement

In August 2014, the Company entered into a revolving credit and guarantee agreement, or Cash Flow Facility. In October 2014, the Company amended the Cash Flow Facility to increase the borrowing limit under the Cash Flow Facility. The Cash Flow Facility allowed the Company to borrow up to \$50.0 million , including up to \$10.0 million for the issuance of letters of credit and up to \$10.0 million for swing line loans. During the three months ended March 31, 2015, the effective interest rate on the revolving line of credit was 3.59% . The Cash Flow Facility was terminated in December 2015.

2015 Credit Agreement

In December 2015, the Company entered into a second amended and restated credit agreement, or Senior Facility, to replace the existing Asset-Based Credit Facility and Cash Flow Facility. This Senior Facility allows the Company to borrow up to \$250.0 million , including up to a \$50.0 million for the issuance of letters of credit and up to \$25.0 million for swing line loans. Borrowings under the Senior Facility may be drawn as Alternate Base Rate, or ABR, loans or Eurodollar loans, and matures in December 2020. ABR loans bear interest at a variable rate equal to the applicable margin plus the highest of (i) the prime rate, (ii) the federal funds effective rate plus 0.5% , and (iii) the Eurodollar rate plus 1.0% , but in any case at a minimum rate of 3.25% per annum. Eurodollar loans bear interest at a variable rate based on the LIBOR rate and Eurodollar reserve requirements, but in any case at a minimum rate of 1.0% per annum.

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

The Company has the option to repay its borrowings under the Senior Facility without penalty prior to maturity. The Senior Facility requires the Company to comply with certain financial covenants, including maintaining a consolidated fixed charge coverage ratio of at least 1.15 :1, and a consolidated leverage ratio of less than 3 :1. The Senior Facility also requires the Company to comply with certain non-financial covenants. The Company was in compliance with these covenants as of April 2, 2016 . Obligations under the credit facility are collateralized by substantially all of the Company's assets, excluding the Company's intellectual property. As of April 2, 2016 , there were no outstanding borrowings under the Senior Facility.

Letters of Credit

As of April 2, 2016 and December 31, 2015 , the Company had outstanding letters of credit totaling \$17.4 million and \$17.1 million , respectively, issued to cover various security deposits on the Company's facility leases.

6. Commitments and Contingencies

Leases

The Company leases office space in various locations with expiration dates between 2016 and 2024. The lease agreements often include leasehold improvement incentives, escalating lease payments, renewal provisions and other provisions which require the Company to pay taxes, insurance, maintenance costs or defined rent increases. Rent expense is recorded over the lease terms on a straight-line basis. In April 2016, the Company entered into a sublease to expand the Company's existing headquarters. The lease expires in 2024. Future minimum payments under the leases, including the sublease, as of April 2, 2016 were \$308.8 million .

Legal Proceedings

Fitbit Force. In 2014, class action and personal injury lawsuits were filed against the Company based upon claims of allergic reactions from adhesives in the Fitbit Force, and alleged violations of various state false advertising and unfair competition statutes based on the Company's sale and marketing of the Fitbit Force. The class action cases were settled in 2014. Certain personal injury complaints remain outstanding, including several complaints filed in 2015. In the fourth quarter of 2015, the Company received proceeds from the insurance policies that apply to these claims and related legal fees, and the Company recorded an accrual for liabilities arising under these claims that was immaterial and falls within the amount of the insurance proceeds received.

Fitbit Zip, Fitbit One, Fitbit Flex, Fitbit Charge, Fitbit Charge HR, and Fitbit Surge. In 2014, one personal injury lawsuit was filed against the Company based upon claims of skin irritation from the Fitbit Flex. Additional lawsuits were filed in 2015 based upon claims of personal injury from the Fitbit Zip, Fitbit One, Fitbit Flex, Fitbit Charge, Fitbit Charge HR, and Fitbit Surge. These personal injury complaints remain outstanding. In the fourth quarter of 2015, the Company received proceeds from the insurance policies that apply to these claims and related legal fees, and the Company recorded an accrual for liabilities arising under these claims that was immaterial and falls within the amount of the insurance proceeds received.

Jawbone. On May 27, 2015, Jawbone filed a lawsuit against the Company and certain of its employees who were formerly employed by Jawbone in the Superior Court of the State of California in the County of San Francisco alleging trade secret misappropriation and unfair and unlawful business practices against all defendants, and alleging breach of contract and breach of implied covenant of good faith and fair dealing against the employee defendants. The complaint alleges, among other things, that prior to leaving Jawbone at various times in 2015, the employees downloaded Jawbone company documents and materials, including allegedly confidential and trade secret information, and that these employees are using such information in the development of the Company's products. The complaint also alleges that the Company recruited those employees with the intent of using Jawbone's proprietary information. The complaint seeks unspecified damages, including punitive damages and injunctive relief. On June 26, 2015, the Company and the employee defendants filed demurrers to Jawbone's complaint. The Company sought to dismiss both causes of action brought against it (those for misappropriation of trade secrets and unfair business practices). The employee defendants sought to dismiss the breach of implied covenant and unfair business practices causes of action. On October 2, 2015, Jawbone filed a First Amended Complaint asserting the same causes of action and adding additional allegations to those raised in the initial complaint. On October 21, 2015, the Company and the employee defendants demurred to the First Amended Complaint, in which Fitbit once again moved to dismiss the misappropriation and unfair business practices causes of action and the employee defendants moved to dismiss those for breach of the implied covenant and unfair business practices. A hearing on the demurrers is currently scheduled for May 31, 2016. At that time, the Court will also hear Jawbone's request to amend the complaint to add another individual defendant who was previously employed by Jawbone and is now employed by Fitbit.

On June 10, 2015, Jawbone and BodyMedia, Inc., a wholly-owned subsidiary of Jawbone, or BodyMedia, filed a lawsuit against the Company in the U.S. District Court for the Northern District of California alleging that the Company infringes three

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

U.S. patents held by them: U.S. Patent No. 8,446,275, titled “General Health and Wellness Management Method and Apparatus For A Wellness Application Using Data From a Data-Capable Band,” U.S. Patent No. 8,073,707, titled “System For Detecting, Monitoring, And Reporting An Individual’s Physiological Or Contextual Status,” and U.S. Patent No. 8,398,546, titled “System For Monitoring And Managing Body Weight And Other Physiological Conditions Including Iterative And Personalized Planning, Intervention And Reporting Capability.” Jawbone and BodyMedia allege that these patents have been infringed by a substantial majority of the Company’s products that it has sold historically, as well as several current products. The complaint seeks unspecified compensatory damages and attorney’s fees from the Company and to permanently enjoin the Company from making, manufacturing, using, selling, importing, or offering the Company’s products for sale.

On July 3, 2015, Jawbone and BodyMedia amended their complaint to add three additional U.S. patents to the infringement claims against the Company: U.S. Patent No. 8,529,811, titled “Component Protective Overmolding Using Protective External Coatings,” U.S. Patent No. 8,793,522, titled “Power Management in a Data-Capable Strapband,” and U.S. Patent No. 8,961,413, titled “Wireless Communications Device and Personal Monitor.”

On July 7, 2015, Jawbone and BodyMedia filed a complaint with the ITC requesting an investigation into purported violations of the Tariff Act of 1930 by the Company and Flextronics International Ltd. and Flextronics Sales and Marketing (A-P) Ltd. The complaint alleges that the Company’s products infringe the same six U.S. patents at issue in action brought against the Company in the U.S. District Court for the Northern District of California. Furthermore, the complaint makes the same allegations of trade secret misappropriation, unfair competition and unfair acts as a result of the Company’s hiring of the former Jawbone employees, as in the action brought against it and certain of the Company’s employees in the Superior Court in the State of California. The complaint seeks a limited exclusion order and a cease and desist order halting the importation and sale of the Company’s products that allegedly infringe upon Jawbone’s patents and misappropriate Jawbone’s trade secrets. On July 24, 2015, Jawbone and BodyMedia filed a letter with the ITC seeking to amend and supplement their ITC complaint. In their letter, Jawbone and BodyMedia, among other things, purport to identify the trade secrets allegedly misappropriated by the employee defendants. The ITC instituted the investigation on August 17, 2015.

On February 8, 2016, Jawbone filed a motion for partial termination of the investigation as to the ‘522 patent after discovery showed the Company’s products do not actually practice the patent. On March 4, 2016, Jawbone filed a motion for partial termination of the investigation as to the ‘811 patent after a claim construction ruling that was favorable to the Company suggested non-infringement by the Company’s products. On March 4, 2016, the administrative law judge, or ALJ, issued an Initial Determination that granted a Motion for Summary Determination as to the ‘546 and ‘275 patents on grounds they are ineligible subject matter under 35 U.S.C. § 101. The Initial Determination was affirmed by the Commission on April 4, 2016. On April 28, 2016, the ALJ issued an Initial Determination that granted a Motion for Summary Determination as to the ‘707 and ‘413 patents on grounds they are ineligible subject matter under 35 U.S.C. § 101. No patent claims remain in the case. A trial on the trade secrets allegations will proceed on May 9-17, 2016. The target date for completion of the investigation is December 21, 2016.

On September 3, 2015, the Company filed a complaint for patent infringement against Jawbone in the U.S. District Court for the District of Delaware, asserting that its activity trackers (UP Move, UP24, UP3, and UP4) infringe U.S. Patent Nos. 8,909,543, 9,031,812, and 9,042,971. On September 8, 2015, the Company filed a complaint for patent infringement against Jawbone in the U.S. District Court for the Northern District of California, asserting that its activity trackers infringe U.S. Patent Nos. 9,026,053, 9,084,923, and 9,106,307. On October 29, 2015, the Company filed a complaint for patent infringement against Jawbone in the United States District Court for the District of Delaware, asserting that its activity trackers infringe U.S. Patent Nos. 8,920,332, 8,868,377, and 9,089,760.

On November 2, 2015, the Company filed a complaint with the ITC requesting an investigation into violations of the Tariff Act of 1930 by Jawbone and Body Media. The complaint asserts that Jawbone’s products infringe U.S. Patent Nos. 8,920,332, 8,868,377, and 9,089,760. The complaint seeks a limited exclusion order and a cease and desist order halting the importation and sale of Jawbone’s products that the Company believes infringe upon its patents. The ITC instituted the investigation on December 1, 2015. The hearing has been set for August 8-12, 2016, and the target date for completion of the investigation is April 7, 2017.

The case filed by Jawbone against the Company in the Northern District of California has been stayed, pending a determination in the ITC on the same patents.

The first case filed by the Company against Jawbone in the District of Delaware, asserting the ‘543, ‘812, and ‘971 patents, has been transferred to the Northern District of California. The second case filed by the Company against Jawbone in the District of Delaware, asserting the ‘332, ‘377, and ‘760 patents, has been stayed, pending a determination in the ITC on the same patents. In the case filed by the Company in the Northern District of California, on October 30, 2015, Jawbone answered and made an

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

antitrust counterclaim, asserting that the Company's infringement claims are somehow "sham litigation" and that by asserting them and hiring some of Jawbone's employees, the Company is supposedly monopolizing a market of personal fitness trackers. In response to the Company's motion to dismiss the antitrust counterclaim, on January 13, 2016, Jawbone amended its Answer and antitrust counterclaim. The Company has moved to stay and bifurcate the antitrust claim, and the hearing on that motion will be on June 2, 2016.

The Company intends to vigorously defend and prosecute each of the Jawbone litigation matters and, based on its review, the Company believes it has valid defenses and claims with respect to each of these matters. However, litigation is inherently uncertain, and any judgment or injunctive relief entered against the Company or any adverse settlement could materially and adversely impact its business, financial condition, operating results, and prospects. Regarding the six matters still in the early stages of litigation, the Company is unable to estimate a reasonably possible loss or range of loss, if any, that may result from these matters. In addition, these litigation matters are complex, likely to involve significant management time and attention, and the cost of defending and prosecuting these matters is likely to be expensive, regardless of outcome.

Sleep Tracking. On May 8, 2015, a purported class action lawsuit was filed against the Company in the U.S. District Court for the Northern District of California, alleging that the sleep tracking function available in certain trackers does not perform as advertised. Plaintiffs seek class certification, restitution, an award of unspecified compensatory and punitive damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. Plaintiffs have amended their complaint four times, and on January 15, 2016, the Company moved to dismiss the Fourth Amended Complaint. A hearing on the motion to dismiss that had been scheduled for March 16, 2016 was taken off the calendar, and the Company is awaiting the Court's ruling on the motion to dismiss. The Company believes that the plaintiffs' allegations are without merit, and intends to vigorously defend against the claims. Because the Company is in the early stages of this litigation matter, the Company is unable to estimate a reasonably possible loss or range of loss, if any, that may result from this matter.

Heart Rate Monitoring. On January 6, 2016 and February 16, 2016, two purported class action lawsuits were filed against the Company in the U.S. District Court for the Northern District of California, alleging that the PurePulse heart rate monitoring technology in the Fitbit Charge HR and Fitbit Surge do not consistently and accurately record users' heart rates. Plaintiffs allege common law claims as well as violations of various states' false advertising and unfair competition statutes based on our sale and marketing of the Fitbit Charge HR and Fitbit Surge. Plaintiffs seek class certification, injunctive and declaratory relief, restitution, an award of unspecified compensatory damages, exemplary damages, punitive damages, and statutory penalties and damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. On April 15, 2016, the plaintiffs filed a Consolidated Master Class Action Complaint that combines the plaintiffs from the two previously filed complaints. The Company has not yet answered. The Company believes that the plaintiffs' allegations are without merit, and intends to vigorously defend against the claims. Because the Company is in the early stages of this litigation matter, the Company is unable to estimate a reasonably possible loss or range of loss, if any, that may result from this matter.

Federal Securities Class Action. On January 11, 2016, a putative class action lawsuit alleging violations of federal securities laws was filed in the U.S. District Court for the Northern District of California, naming as defendants the Company and certain of its officers. The lawsuit alleges violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 by the Company and the officers for allegedly making materially false and misleading statements regarding its business and operations between June 18, 2015 and November 13, 2015. The complaint alleges that Fitbit misrepresented the accuracy of its heart rate monitoring technology, and that when "the truth" was revealed by the filing of the heart rate monitoring class action on January 6, 2016, the Company's stock price fell. Plaintiff seeks to represent a class of persons who purchased or otherwise acquired the Company's securities (i) on the open market between June 18, 2015 and January 6, 2016; and/or (ii) pursuant to or traceable to the initial public offering, or IPO. Plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. On April 15, 2016, the Court held the lead plaintiff hearing. The Court has not yet appointed the lead plaintiff. The Company believes that the plaintiff's allegations are without merit, and intends to vigorously defend against the claims. Because the Company is in the early stages of this litigation matter, the Company is unable to estimate a reasonably possible loss or range of loss, if any, that may result from this matter.

State Securities Class Action. On April 28, 2016, a putative class action lawsuit alleging violations of Sections 11 and 15 of the Securities Act, 15 U.S.C. §§ 77k and 77o, was filed in the Superior Court of California in the County of San Mateo, naming as defendants the Company, certain of its officers, its board members, its underwriters in the IPO, and a number of other entities and individuals who are investors in the Company. The complaint alleges that Fitbit misrepresented the accuracy of its heart rate monitoring technology in the Registration Statement it filed with the SEC on May 7, 2015, and that when "the truth" was revealed

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Notes to Condensed Consolidated Financial Statements (Continued)

by the filing of the heart rate monitoring class action on January 6, 2016, the Company's stock price fell. Plaintiff seeks to represent a class of persons who purchased Fitbit common stock in and/or traceable to the Company's June 22, 2015 IPO. Plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. The Company believes that the plaintiff's allegations are without merit, and intends to vigorously defend against the claims. Because the Company is in the early stages of this litigation matter, the Company is unable to estimate a reasonably possible loss or range of loss, if any, that may result from this matter.

Other. The Company is and, from time to time, may in the future become, involved in other legal proceedings in the ordinary course of business. The Company currently believes that the outcome of any of these existing legal proceedings, including the aforementioned cases, either individually or in the aggregate, will not have a material impact on the operating results, financial condition or cash flows of the Company. With respect to existing legal proceedings, the Company has either determined that the existence of a material loss is not reasonably possible or that it is unable to estimate a reasonably possible loss or range of loss.

Indemnifications

In the ordinary course of business, the Company enters into agreements that may include indemnification provisions. Pursuant to such agreements, the Company may indemnify, hold harmless and defend an indemnified parties for losses suffered or incurred by the indemnified party. Some of the provisions will limit losses to those arising from third-party actions. In some cases, the indemnification will continue after the termination of the agreement. The maximum potential amount of future payments the Company could be required to make under these provisions is not determinable. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. The Company has also entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers to the fullest extent permitted by Delaware corporate law. The Company also currently has directors' and officers' insurance.

7. Stock Plan

Equity Incentive Plans

In May 2015, the Company's board of directors and stockholders adopted and approved the 2015 Equity Incentive Plan, or 2015 Plan. The 2015 Plan became effective on June 16, 2015 and serves as the successor to the Amended and Restated 2007 Stock Plan, or 2007 Plan. The Company ceased granting awards under the 2007 Plan, and any outstanding stock options and restricted stock units, or RSUs, granted under the 2007 Plan will remain subject to the terms of the 2007 Stock Plan. As of April 2, 2016, 9.0 million shares were reserved for issuance under the 2015 Plan.

Employee Stock Purchase Plan

In May 2015, the Company's board of directors adopted the 2015 Employee Stock Purchase Plan, or 2015 ESPP, which became effective on June 17, 2015. A total of 3.8 million shares of Class A common stock were initially reserved for issuance under the 2015 ESPP. The 2015 ESPP allows eligible employees to purchase shares of the Company's Class A common stock through payroll deductions at a price per share equal to 85% of the lesser of the fair market value of the Company's common stock (i) on the first trading day of the applicable offering period and (2) the last trading day of each purchase period in the applicable offering period. Except for the initial offering period, the 2015 ESPP provides for 6-month offering periods beginning in May and November of each year. The initial offering period began June 17, 2015, and will end in May 2016.

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Notes to Condensed Consolidated Financial Statements (Continued)

Stock Options

Stock option activity under the equity incentive plans was as follows:

	Options Outstanding		
	Number of Shares Subject to Options (in thousands)	Weighted- Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance—December 31, 2015	44,362	\$ 3.20	
Granted	955	14.06	
Exercised	(2,626)	0.90	
Forfeited or canceled	(496)	3.93	
Balance—April 2, 2016	<u>42,195</u>	3.58	\$ 482,495
Options exercisable—April 2, 2016	<u>21,071</u>	1.56	\$ 281,785
Options vested and expected to vest—April 2, 2016	<u>41,236</u>	3.54	\$ 473,262

The aggregate intrinsic values of options outstanding, exercisable, vested and expected to vest as of April 2, 2016 were calculated as the difference between the exercise price of the options and the fair value of the Class A common stock of \$14.92 as of April 1, 2016.

Restricted Stock Units

RSU activity under the equity incentive plans was as follows:

	RSUs Outstanding (in thousands)	Weighted- Average Grant Date Fair Value
	Unvested balance—December 31, 2015	3,292
Granted	5,020	14.35
Vested	(109)	15.84
Forfeited or canceled	(33)	27.62
Unvested balance—April 2, 2016	<u>8,170</u>	22.30

Stock-Based Compensation Expense

Total stock-based compensation recognized was as follows (in thousands):

	Three Months Ended	
	April 2, 2016	March 31, 2015
Cost of revenue	\$ 1,309	\$ 446
Research and development	10,393	1,879
Sales and marketing	2,535	1,307
General and administrative	3,533	1,271
Total stock-based compensation expense	<u>\$ 17,770</u>	<u>\$ 4,903</u>

As of April 2, 2016, the total unrecognized compensation expense related to unvested options and RSUs, net of estimated forfeitures, was \$230.5 million, which the Company expects to recognize over an estimated weighted average period of 3.4 years.

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

8. Income Taxes

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely.

For the three months ended April 2, 2016, the Company recorded an expense for income taxes of \$9.9 million for an effective tax rate of 47.2%. The effective tax rate is higher than the statutory federal tax rate primarily due to an out-of-period adjustment recorded in the three months ended April 2, 2016 and non-deductible stock-based compensation expense, partially offset by the effect of the growth of international operations in lower tax jurisdictions and a permanent domestic production activities deduction. For the three months ended March 31, 2015, the Company recorded an expense for income taxes of \$28.4 million for an effective tax rate of 37.2%. The effective tax rate for the three months ended March 31, 2015 reflected income tax expense on earnings during such period. The effective tax rate was higher than the statutory federal tax rate primarily due to state income taxes and certain permanent differences.

As of April 2, 2016, the total amount of gross unrecognized tax benefits was \$27.3 million, all of which would affect the effective tax rate if recognized. The Company does not have any tax positions as of April 2, 2016 for which it is reasonably possible the total amount of gross unrecognized tax benefits will increase or decrease within the following 12 months.

9. Net Income per Share Attributable to Common Stockholders

Basic and diluted net income per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Prior to the Company's IPO in June 2015, the Company considered its redeemable convertible preferred stock to be participating securities. In accordance with the two-class method, earnings allocated to these participating securities and the related number of outstanding shares of the participating securities, which include contractual participation rights in undistributed earnings, have been excluded from the computation of basic and diluted net income per share attributable to common stockholders.

In connection with the IPO, the Company established two classes of authorized common stock: Class A common stock and Class B common stock. As a result, all then-outstanding shares of common stock were converted into shares of Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock is convertible at any time at the option of the stockholder into one share of Class A common stock, generally automatically converts into Class A common stock upon a transfer, and has no expiration date. The Company applies the two-class method of calculating earnings per share, but as the dividend rights of both classes are identical, basic and diluted earnings per share are the same for both classes.

Undistributed earnings allocated to participating securities are subtracted from net income in determining net income attributable to common stockholders. Basic net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period. All participating securities are excluded from basic weighted-average common shares outstanding.

For the calculation of diluted EPS, net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities. Diluted net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding, including all potentially dilutive common shares, if the effect of such shares is dilutive.

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

The following table sets forth the computation of the Company's basic and diluted net income per share attributable to common stockholders (in thousands, except per share amounts):

	Three Months Ended	
	April 2, 2016	March 31, 2015
Numerator:		
Net income	\$ 11,035	\$ 47,997
Less: noncumulative dividends to preferred stockholders	—	(1,314)
Less: undistributed earnings to participating securities	—	(36,060)
Net income attributable to common stockholders—basic	11,035	10,623
Add: adjustments to undistributed earnings to participating securities	—	4,992
Net income attributable to common stockholders—diluted	\$ 11,035	\$ 15,615
Denominator:		
Weighted-average shares of common stock—basic for Class A and Class B	216,043	41,201
Effect of dilutive securities	25,966	29,088
Weighted-average shares of common stock—diluted for Class A and Class B	242,009	70,289
Net income per share attributable to common stockholders:		
Basic	\$ 0.05	\$ 0.26
Diluted	\$ 0.05	\$ 0.22

The following common stock equivalents were excluded from the computation of diluted net income per share for the periods presented because including them would have been anti-dilutive (in thousands):

	Three Months Ended	
	April 2, 2016	March 31, 2015
Stock options to purchase common stock	3,234	1,599
Restricted stock units	3,513	—
Redeemable convertible preferred stock	—	139,851
Redeemable convertible preferred stock warrants	—	1,955
Total	6,747	143,405

10. Significant Customer Information and Other Information

Retailer and Distributor Concentration

Retailers and distributors with revenue equal to or greater than 10% of total revenue for the three months ended April 2, 2016 and March 31, 2015 were as follows:

	Three Months Ended	
	April 2, 2016	March 31, 2015
A	18%	19%
C	12	11
B	*	10

*Revenue was less than 10%.

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

Retailers and distributors that accounted for equal to or greater than 10% of accounts receivable at April 2, 2016 and December 31, 2015 were as follows:

	April 2, 2016	December 31, 2015
A	20%	15%
C	15	23
B	14	19
E	10	*

* Accounts receivable were less than 10%.

Geographic and Other Information

Revenue by geographic region, based on ship-to destinations, was as follows (in thousands):

	Three Months Ended	
	April 2, 2016	March 31, 2015
United States	\$ 351,685	\$ 265,309
Americas excluding United States	23,394	13,429
Europe, Middle East, and Africa	74,724	35,055
APAC	55,553	22,961
Total	\$ 505,356	\$ 336,754

As of April 2, 2016 and December 31, 2015, long-lived assets, which represent property and equipment, located outside the United States were \$30.6 million and \$28.9 million, respectively.

11. Acquisition

In March 2015, the Company acquired all of the outstanding securities of FitStar, a privately-held company, for aggregate acquisition consideration of \$32.5 million, comprised of \$13.3 million related to the issuance of 1,059,688 shares of the Company's Class B common stock, \$11.5 million of cash, and \$7.7 million of contingent consideration. FitStar is a provider of interactive video-based exercise experiences on mobile devices and computers that utilize proprietary algorithms to adjust and customize workouts for individual users. The acquisition is expected to enhance the Company's software and services offerings.

Under the acquisition agreement, the Company was obligated to issue additional common stock or pay cash to FitStar stockholders. The actual amount of any contingent consideration depended on market-based events that may occur in the future. The Company determined the fair market value of this contingent consideration to be \$7.7 million as of the acquisition date using the Monte Carlo simulation method. The fair value of this liability was adjusted at each reporting period, and the change in fair value is included in total operating expenses on the condensed consolidated statements of operations. As a result of the Company's IPO, the Company recorded a change in fair value of \$7.7 million as a benefit and as of December 31, 2015, the fair value of the contingent consideration liability was zero. In addition, the terms related to the contingent consideration expired as of December 31, 2015 and no amounts were paid or shares issued for the contingent consideration.

The following table summarizes the fair value of assets acquired and liabilities assumed (in thousands):

Goodwill	\$ 22,157
Developed and core technology	12,640
Customer relationships	128
Trademarks	1,150
Assumed liabilities, net of assets	(3,552)
Total	\$ 32,523

FITBIT, INC.
Notes to Condensed Consolidated Financial Statements (Continued)

The amortization periods of the acquired developed technology, customer relationships, and trademarks are 7.0 years , 1.3 years , and 5.0 years , respectively. Goodwill is not deductible for tax purposes.

In addition, upon acquisition, the Company issued 308,216 additional shares of common stock valued at \$4.2 million . The Company is also obligated to make cash payments up to \$1.2 million . Both the common stock and the cash payments are additional consideration which is contingent upon former employees of FitStar continuing to be employed by the Company. As such, this additional consideration was not part of the purchase price and is recognized as post-acquisition compensation expense over the related requisite service period of 3 years . The Company also recorded acquisition-related transaction costs of \$0.3 million , which were included in general and administrative expenses in the condensed consolidated statements of operations during the three months ended March 31, 2015.

The results of operations of FitStar are included in the accompanying condensed consolidated statements of operations from the date of acquisition. Pro forma results of operations for this acquisition have not been presented because they are not material to the Company's condensed consolidated financial statements.

12. Subsequent Events

In April 2016, the Company entered into a sublease to expand the Company's existing headquarters. The lease commencement date was April 1, 2016 and the lease expires in 2024. Subsequent to April 2, 2016, the Company established a letter of credit of \$20.5 million for the security deposit required in connection with this sublease. See Note 6 for additional information.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As discussed in the section titled "Note About Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below.

Change to Quarterly Reporting Calendar

Our fiscal year ends on December 31 of each year. In the first quarter of 2016, we adopted a 4-4-5 week quarterly calendar, which, for the 2016 fiscal year, is comprised of four fiscal quarters ending on April 2, 2016, July 2, 2016, October 1, 2016, and December 31, 2016. We did not adjust operating results for quarters prior to 2016. There were 93 days and 90 days in the three months ended April 2, 2016 and March 31, 2015, respectively.

Overview

Our mission is to help people lead healthier, more active lives by empowering them with data, inspiration, and guidance to reach their goals.

Fitbit is transforming the way millions of people around the world achieve their health and fitness goals. The Fitbit platform combines connected health and fitness devices with software and services, including an online dashboard and mobile apps, data analytics, motivational and social tools, personalized insights, and virtual coaching through customized fitness plans and interactive workouts. Our platform helps people become more active, exercise more, sleep better, eat smarter, and manage their weight. Fitbit appeals to a large, mainstream health and fitness market by addressing these key needs with advanced technology embedded in simple-to-use products and services. We pioneered the connected health and fitness market starting in 2007, and since then, we have grown into a leading global health and fitness brand.

The core of our platform is our family of eight wearable connected health and fitness trackers. These wrist-based and "clippable" devices automatically track users' daily steps, calories burned, distance traveled, and active minutes and display real-time feedback to encourage them to become more active in their daily lives. Most of our trackers also measure floors climbed, sleep duration and quality, and our more advanced products track heart rate and GPS-based information such as speed, distance, and exercise routes. Several of our devices also feature deeper integration with smartphones, such as the ability to receive call and text notifications and control music. To accompany certain of our products, we offer accessories that include interchangeable wrist bands and frames, colored clips, device charging cables, wireless sync dongles, band clasps, sleep bands, and Fitbit apparel. In addition, we offer a Wi-Fi connected scale that records weight, body fat, and BMI. We are able to enhance the functionality and features of our connected devices through wireless updates. Our platform also includes our online dashboard and mobile apps, which wirelessly and automatically sync with our devices. Our platform allows our users to see trends and achievements, access motivational tools such as virtual badges and real-time progress notifications, and connect, support, and compete with friends and family. We intend to continue to significantly invest in research and development in order to enhance our products and services.

We design our products primarily in California and outsource the production of our devices to contract manufacturers, which are responsible for procuring most of the components used in the manufacturing of our products from third-party suppliers. We also outsource packaging and fulfillment to third-party logistics providers around the world.

We generate substantially all of our revenue from sales of our connected health and fitness devices. We sell our products in over 50,000 retail stores and in 63 countries, through our retailers' websites, through our online store at Fitbit.com, and as part of our corporate wellness offering. We seek to build global brand awareness, increase product adoption, and drive sales through our sales and marketing efforts. We intend to continue to significantly invest in these sales and marketing efforts in the future.

Our growth will depend in part on the adoption and sale of our products and services in international markets. In recent periods, we have experienced significant growth in international sales. In the three months ended April 2, 2016, 30% of our revenue, based on ship-to destinations, was from sales outside of the United States. We believe international markets represent a significant growth opportunity for us. We intend to expand sales of our products and services in new and existing international markets by expanding our distribution channels through select retailers and strategic partnerships. We also intend to continue to invest across all geographic regions in sales and marketing efforts, including increasing our global advertising efforts, and in infrastructure and

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personnel to support our international expansion, including establishing additional sales offices globally. Our international expansion efforts have resulted and will continue to result in increased costs and are subject to a variety of risks, including increased competition, uncertain enforcement of our intellectual property rights, more complex distribution logistics, and the complexity of compliance with foreign laws and regulations.

The following are financial highlights for the three months ended April 2, 2016 and March 31, 2015 :

	Three Months Ended	
	April 2, 2016	March 31, 2015
	(in thousands)	
Revenue	\$ 505,356	\$ 336,754
Net income	11,035	47,997
Adjusted EBITDA	45,111	93,383
Devices sold	4,842	3,866

See the section titled “—Key Business Metrics” for additional information regarding devices sold and adjusted EBITDA, including a reconciliation of adjusted EBITDA to net income.

Key Business Metrics

In addition to the measures presented in our condensed consolidated financial statements, we use the following key metrics to evaluate our business, measure our performance, develop financial forecasts, and make strategic decisions (in thousands).

	Three Months Ended	
	April 2, 2016	March 31, 2015
Devices sold	4,842	3,866
Adjusted EBITDA	\$ 45,111	93,383

Devices Sold

Devices sold represents the number of connected health and fitness devices that are sold during a period, net of expected returns and provisions for the Fitbit Force recall. Devices sold does not include sales of accessories. Growth rates between devices sold and revenue are not necessarily correlated because our revenue is affected by other variables, such as the types of products sold during the period, the introduction of new product offerings that have different U.S. manufacturer’s suggested retail prices, and sales of accessories and premium services.

Adjusted EBITDA

To supplement our condensed consolidated financial statements presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, we monitor and consider adjusted EBITDA, which is a non-GAAP financial measure. This non-GAAP financial measure is not based on any standardized methodology prescribed by U.S. GAAP and is not necessarily comparable to similarly-titled measures presented by other companies.

We define adjusted EBITDA as net income adjusted to exclude the impact of the Fitbit Force recall, stock-based compensation expense, the revaluation of our redeemable convertible preferred stock warrant liability prior to our initial public offering, depreciation and intangible assets amortization, interest income (expense), net, and income tax expense.

We use adjusted EBITDA to evaluate our operating performance and trends and make planning decisions. We believe that adjusted EBITDA helps identify underlying trends in our business that could otherwise be masked by the effect of the expenses and other items that we exclude in adjusted EBITDA. In particular, the exclusion of the effect of the Fitbit Force recall, which primarily impacted our results for the fourth quarter of 2013, the first quarter of 2014, and the fourth quarter of 2015 discussed in “—Fitbit Force Product Recall” and certain expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our business. Additionally, we use this measure to evaluate our operating performance and trends and make planning decisions. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future

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prospects, and allowing for greater transparency with respect to a key financial metric used by our management in its financial and operational decision-making.

Adjusted EBITDA is not prepared in accordance with U.S. GAAP, and should not be considered in isolation of, or as an alternative to, measures prepared in accordance with U.S. GAAP. There are a number of limitations related to the use of this non-GAAP financial measure rather than net income, which is the nearest U.S. GAAP equivalent of adjusted EBITDA. For example, adjusted EBITDA excludes the Fitbit Force recall, which primarily impacted our results for the fourth quarter of 2013, the first quarter of 2014, and the fourth quarter of 2015, and which had a negative impact on our revenue and expenses during these periods. In addition, adjusted EBITDA excludes stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy. Accordingly, adjusted EBITDA should be considered along with other operating and financial performance measures presented in accordance with U.S. GAAP.

The following table presents a reconciliation of net income to adjusted EBITDA (in thousands):

	Three Months Ended	
	April 2, 2016	March 31, 2015
Net income	\$ 11,035	\$ 47,997
Impact of Fitbit Force recall	11	(2,182)
Stock-based compensation expense	17,770	4,903
Revaluation of redeemable convertible preferred stock warrant liability	—	10,335
Depreciation and intangible assets amortization	7,008	3,469
Interest (income) expense, net	(582)	467
Income tax expense	9,869	28,394
Adjusted EBITDA	\$ 45,111	\$ 93,383

Components of our Operating Results

Revenue

We generate substantially all of our revenue from the sale of our connected health and fitness devices and accessories. We also generate a small portion of our revenue from our subscription-based premium services.

Cost of Revenue

Cost of revenue consists of product costs, including costs of contract manufacturers for production, shipping and handling costs, warranty replacement costs, packaging, costs related to the Fitbit Force recall, fulfillment costs, manufacturing and tooling equipment depreciation, warehousing costs, excess and obsolete inventory write-downs, amortization of developed technology intangible assets acquired, and certain allocated costs related to management, facilities, and personnel-related expenses and other expenses associated with supply chain logistics. Personnel-related expenses include salaries, bonuses, benefits, and stock-based compensation.

Operating Expenses

Operating expenses consist of research and development, sales and marketing, and general and administrative expenses.

Research and Development. Research and development expenses consist primarily of personnel-related expenses, consulting and contractor expenses, tooling and prototype materials, and allocated overhead costs.

Substantially all of our research and development expenses are related to developing new products and services and improving our existing products and services. To date, research and development expenses have been expensed as incurred, because the period between achieving technological feasibility and the release of products and services for sale has been short and development costs qualifying for capitalization have been insignificant.

Sales and Marketing. Sales and marketing expenses represent the largest component of our operating expenses and consist primarily of advertising and marketing promotions of our products and services and personnel-related expenses, as well as sales

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incentives, trade show and event costs, sponsorship costs, consulting and contractor expenses, travel, POP display expenses and related amortization, and allocated overhead costs.

General and Administrative . General and administrative expenses consist of personnel-related expenses for our finance, legal, human resources, and administrative personnel, as well as the costs of professional services, any allocated overhead, information technology, amortization of intangible assets acquired, and other administrative expenses.

Interest Income (Expense), Net

Interest income (expense), net consists of interest income earned on our cash and cash equivalents and marketable securities, interest expense associated with our debt financing arrangements, and amortization of debt issuance costs.

Other Income (Expense), Net

Other income (expense), net consists of mark-to-market adjustments for the revaluation of our redeemable convertible preferred stock warrant liability prior to our initial public offering and foreign currency gains and losses.

Income Tax Expense

We are subject to income taxes in the United States and foreign jurisdictions in which we do business. These foreign jurisdictions have statutory tax rates different from those in the United States. Accordingly, our effective tax rates will vary depending on the relative proportion of foreign to U.S. income, the utilization of foreign tax credits, and changes in tax laws.

Fitbit Force Product Recall

In March 2014, we recalled the Fitbit Force after some of our users experienced allergic reactions to adhesives in the wristband. This recall primarily impacted our results for the fourth quarter of 2013, the first quarter of 2014, and the fourth quarter of 2015. We established a reserve for the Fitbit Force recall after considering various factors including cost estimates for customer returns, logistics and handling fees for managing product returns and processing refunds, obsolescence of on-hand inventory, cancellation charges for existing purchase commitments, rework of component inventory with the contract manufacturer, legal fees and settlement costs, and write-offs of tooling and manufacturing equipment.

The recall had the following effect on our income before income taxes (in thousands):

	Three Months Ended	
	April 2, 2016	March 31, 2015
Reduction of revenue	\$ —	\$ —
Incremental (benefit to) cost of revenue	—	(2,040)
Impact on gross profit	—	2,040
Incremental general and administrative expenses (benefit)	11	(142)
Impact on income before income taxes	\$ (11)	\$ 2,182

Operating Results

The following tables set forth the components of our condensed consolidated statements of operations for each of the periods presented and as a percentage of our revenue for those periods. The period-to-period comparison of operating results is not necessarily indicative of results for future periods.

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	Three Months Ended	
	April 2, 2016	March 31, 2015
	(in thousands)	
Consolidated Statements of Operations Data:		
Revenue	\$ 505,356	\$ 336,754
Cost of revenue ⁽¹⁾	271,601	167,545
Gross profit	233,755	169,209
Operating expenses:		
Research and development ⁽¹⁾	72,248	22,426
Sales and marketing ⁽¹⁾	107,051	43,867
General and administrative ⁽¹⁾	35,702	12,981
Total operating expenses	215,001	79,274
Operating income	18,754	89,935
Interest income (expense), net	582	(467)
Other income (expense), net	1,568	(13,077)
Income before income taxes	20,904	76,391
Income tax expense	9,869	28,394
Net income	\$ 11,035	\$ 47,997

(1) Includes stock-based compensation expense as follows:

	Three Months Ended	
	April 2, 2016	March 31, 2015
	(in thousands)	
Cost of revenue	\$ 1,309	\$ 446
Research and development	10,393	1,879
Sales and marketing	2,535	1,307
General and administrative	3,533	1,271
Total stock-based compensation expense	\$ 17,770	\$ 4,903

	Three Months Ended	
	April 2, 2016	March 31, 2015
	(as a percentage of revenue)	
Consolidated Statements of Operations Data:		
Revenue	100%	100 %
Cost of revenue	54	50
Gross profit	46	50
Operating expenses:		
Research and development	14	7
Sales and marketing	21	13
General and administrative	7	4
Total operating expenses	42	24
Operating income	4	26
Interest income (expense), net	—	—
Other income (expense), net	—	(4)
Income before income taxes	4	22
Income tax expense	2	8
Net income	2%	14 %

[Table of Contents](#)**Revenue**

(dollars in thousands)	Three Months Ended		Change	
	April 2, 2016	March 31, 2015	\$	%
Revenue	\$ 505,356	\$ 336,754	\$ 168,602	50%

Revenue increased \$168.6 million, or 50%, from \$336.8 million for the three months ended March 31, 2015 to \$505.4 million for the three months ended April 2, 2016. A substantial majority of the increase was due to an increase in the number of devices sold from 3.9 million in the three months ended March 31, 2015 to 4.8 million in the three months ended April 2, 2016, including \$239.4 million in revenue from new devices introduced in the first quarter of 2016. Revenue also increased due to an increase in the average selling price of our devices by 18% from \$85 per device for the three months ended March 31, 2015 to \$100 per device for the three months ended April 2, 2016, due to new products introduced in the first quarter of 2016. U.S. revenue, based on ship-to destinations, increased \$86.4 million, or 33%, from \$265.3 million for the three months ended March 31, 2015 to \$351.7 million for three months ended April 2, 2016, and international revenue, based on ship-to destinations, increased by \$82.2 million, or 115%, from \$71.4 million for the three months ended March 31, 2015 to \$153.7 million for the three months ended April 2, 2016.

Cost of Revenue

(dollars in thousands)	Three Months Ended		Change	
	April 2, 2016	March 31, 2015	\$	%
Cost of revenue	\$ 271,601	\$ 167,545	\$ 104,056	62%
Gross profit	233,755	169,209	64,546	38
Gross margin	46%	50%		

Cost of revenue increased \$104.1 million, or 62%, from \$167.5 million for the three months ended March 31, 2015 to \$271.6 million for the three months ended April 2, 2016. The increase was primarily due to the increase in the number of devices sold and an increase in average cost per device related to new products introduced in the first quarter of 2016.

Gross margin decreased to 46% for the three months ended April 2, 2016 from 50% for the three months ended March 31, 2015. The decrease in gross margin for the three months ended April 2, 2016 was primarily due to a higher margin for the three months ended March 31, 2015 resulting from a benefit from a settlement with a manufacturer, and lower margins on new products introduced in the first quarter of 2016, for which we have had less cycle time to drive down unit costs versus legacy products.

Research and Development

(dollars in thousands)	Three Months Ended		Change	
	April 2, 2016	March 31, 2015	\$	%
Research and development	\$ 72,248	\$ 22,426	\$ 49,822	222%

Research and development expenses increased \$49.8 million, or 222%, from \$22.4 million for the three months ended March 31, 2015 to \$72.2 million for the three months ended April 2, 2016. The increase was primarily due to a \$29.2 million increase in personnel-related expenses due to a 156% increase in headcount, a \$10.0 million increase in allocated overhead, a \$5.0 million increase in consultant and contractor expenses, a \$3.7 million increase in tooling and prototype materials, and a \$0.9 million increase in travel expenses.

For the full year 2016, we expect our research and development expenses to increase in absolute dollars and as a percentage of revenue as compared to the full year 2015 as we continue to make significant investments in developing new products and services and enhancing existing products and services.

Sales and Marketing

(dollars in thousands)	Three Months Ended		Change	
	April 2, 2016	March 31, 2015	\$	%
Sales and marketing	\$ 107,051	\$ 43,867	\$ 63,184	144%

Sales and marketing expenses increased \$63.2 million, or 144%, from \$43.9 million for the three months ended March 31, 2015 to \$107.1 million for the three months ended April 2, 2016 . The increase was primarily due to a \$46.2 million increase in expenses associated with advertising costs and other marketing programs, driven by the launch of media campaigns for the new products introduced during the three months ended April 2, 2016 . The increase was also due to a \$12.1 million increase in consulting and contractor expenses, a \$6.3 million increase in personnel-related expenses due to a 117% increase in headcount, and a \$0.6 million increase in travel expenses, partially offset by a \$3.4 million decrease in allocated overhead.

For the full year 2016, we expect sales and marketing expenses to increase in absolute dollars and remain relatively consistent as a percentage of revenue as compared to the full year 2015.

General and Administrative

(dollars in thousands)	Three Months Ended		Change	
	April 2, 2016	March 31, 2015	\$	%
General and administrative	\$ 35,702	\$ 12,981	\$ 22,721	175%

General and administrative expenses increased \$22.7 million, or 175%, from \$13.0 million for the three months ended March 31, 2015 to \$35.7 million for the three months ended April 2, 2016 . The increase was primarily due to an \$8.9 million increase in personnel-related expenses due to a 114% increase in headcount, an \$8.7 million increase in legal fees, a \$3.6 million increase in consulting and contractor expenses, and a \$1.5 million increase in other administrative expenses and taxes.

For the full year 2016, we expect general and administrative expenses to increase in absolute dollars and remain relatively consistent as a percentage of revenue as compared to the full year 2015.

Interest and Other Income (Expense), Net

(dollars in thousands)	Three Months Ended		Change	
	April 2, 2016	March 31, 2015	\$	%
Interest income (expense), net	\$ 582	\$ (467)	\$ 1,049	(225)%
Other income (expense), net	1,568	(13,077)	14,645	(112)

Interest income (expense), net increased \$1.0 million, or 225%, from expense of \$0.5 million for the three months ended March 31, 2015 to income of \$0.6 million for the three months ended April 2, 2016 . Other income (expense), net, increased \$14.6 million, from expense of \$13.1 million for the three months ended March 31, 2015 to income of \$1.6 million for the three months ended April 2, 2016 . The increase was primarily due to a decrease of \$10.3 million in charges related to the revaluation of our convertible preferred stock warrant liability as the liability is no longer outstanding subsequent to our IPO.

Income Tax Expense

(dollars in thousands)	Three Months Ended		Change	
	April 2, 2016	March 31, 2015	\$	%
Income tax expense	\$ 9,869	\$ 28,394	\$ (18,525)	(65)%

Income tax expense decreased \$18.5 million, or 65%, from an expense of \$28.4 million for the three months ended March 31, 2015 to \$9.9 million for the three months ended April 2, 2016 . Our effective tax rate was 47.2% and 37.2% for the three months

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ended April 2, 2016 and March 31, 2015, respectively. The increase in our effective tax rate for the three months ended April 2, 2016 was primarily due to effect of an out-of-period adjustment recorded in the three months ended April 2, 2016, partially offset by the growth of international operations in lower tax jurisdictions, a domestic production activities deduction, and research and development tax credits.

Liquidity and Capital Resources

Our operations have been financed primarily through cash flow from operating activities, the net proceeds from the sale of our equity securities, and borrowings under our credit facilities. As of April 2, 2016, we had cash and cash equivalents of \$722.1 million and marketable securities of \$69.7 million.

We believe our existing cash and cash equivalent balances and cash flow from operations will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending on research and development efforts and other business initiatives, the expansion of sales and marketing activities, the timing of new product introductions, market acceptance of our products and overall economic conditions. To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations.

Credit Facility

In December 2015, we entered into a second amended and restated credit agreement, or Senior Facility, that allows us to borrow up to \$250.0 million, including up to \$50.0 million for the issuance of letters of credit and up to \$25.0 million for swing line loans. For further information regarding the Senior Facility, see Note 5 of the notes to our condensed consolidated financial statements.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Three Months Ended	
	April 2, 2016	March 31, 2015
Net cash provided by (used in):		
Operating activities	\$ 137,466	\$ 32,660
Investing activities	42,346	(16,046)
Financing activities	6,541	25,566
Net change in cash and cash equivalents	\$ 186,353	\$ 42,180

Cash Flows from Operating Activities

Net cash provided by operating activities of \$137.5 million for the three months ended April 2, 2016 was primarily due to a \$111.0 million increase in net change in operating assets and liabilities, non-cash adjustments of \$15.5 million, and net income of \$11.0 million. Net cash provided by operating activities of \$32.7 million for the three months ended March 31, 2015 was primarily due to net income of \$48.0 million and non-cash adjustments of \$16.8 million, partially offset by a decrease in net change in operating assets and liabilities of \$32.2 million.

Cash Flows from Investing Activities

Net cash provided by investing activities for the three months ended April 2, 2016 of \$42.3 million was primarily due to maturities of marketable securities of \$121.6 million, partially offset by purchases of marketable securities of \$62.6 million and purchases of property and equipment of \$16.7 million. Net cash used in investing activities for the three months ended March 31, 2015 of \$16.0 million was due to the cash portion of the acquisition of FitStar of \$11.0 million, net of cash acquired, and purchases of property and equipment of \$5.0 million.

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Cash Flows from Financing Activities

Cash provided by financing activities for the three months ended April 2, 2016 of \$6.5 million was primarily due to excess tax benefits of \$6.0 million from stock-based compensation. Cash provided by financing activities for the three months ended March 31, 2015 of \$25.6 million was primarily due to net borrowings of \$25.5 million under our credit facilities.

Contractual Obligations and Other Commitments

Future minimum payments under our operating leases as of April 2, 2016 were \$308.8 million, which includes minimum payments of a sublease entered into in April 2016.

The aggregate amount of purchase orders open as of April 2, 2016 was approximately \$535.5 million. We cannot determine the aggregate amount of such purchase orders that represent contractual obligations because purchase orders may represent authorizations to purchase rather than binding agreements. During the normal course of business, we and our contract manufacturers procure components based upon a forecasted production plan. If we cancel all or part of the orders, we may be liable to our suppliers and contract manufacturers for the cost of the unutilized component orders or components purchased by our contract manufactures.

We have recorded a liability for uncertain tax positions of \$27.3 million as of April 2, 2016, due to the uncertainty of when the related tax settlements will become due.

Off-Balance Sheet Arrangements

As of April 2, 2016, we did not have any off-balance sheet arrangements or holdings in variable interest entities.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate and foreign currency risks as follows:

Interest Rate Risk

Our exposure to changes in interest rates relates primarily to our investment portfolio. As of April 2, 2016, we had cash and cash equivalents of \$722.1 million and marketable securities of \$69.7 million, which consisted primarily of bank deposits, money market funds, U.S. government and agency securities, commercial paper, and corporate notes and bonds. The primary objectives of our investment activities are to preserve principal and provide liquidity without significantly increasing risk. Our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure to any single issue, issuer, or type of investment.

To date, we have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Foreign Currency Risk

To date, all of our inventory purchases have been denominated in U.S. dollars. Our international sales are primarily denominated in foreign currencies and any unfavorable movement in the exchange rate between U.S. dollars and the currencies

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in which we conduct sales in foreign countries could have an adverse impact on our revenue. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates. In addition, our suppliers incur many costs, including labor costs, in other currencies. To the extent that exchange rates move unfavorably for our suppliers, they may seek to pass these additional costs on to us, which could have a material impact on our gross margins. Our operating results and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates.

To partially mitigate the impact of changes in currency exchange rates on net cash flows from our foreign currency denominated revenue and expenses, we enter into foreign currency exchange forward and option contracts. We also hedge certain monetary assets and liabilities denominated in foreign currencies, which reduces but does not eliminate our exposure to currency fluctuations between the date a transaction is recorded and the date that cash is collected or paid. In general, the market risks of these contracts are offset by corresponding gains and losses on the transactions being hedged.

We had outstanding contracts with a total notional amount of \$281.0 million and \$43.9 million in cash flow hedges for forecasted revenue and expense transactions, respectively, as of April 2, 2016 . We had outstanding balance sheet hedges with a total notional amount of \$98.9 million as of April 2, 2016 . We assessed our exposure to movements in currency exchange rates by performing a sensitivity analysis of adverse changes in exchange rates and the corresponding impact to our results of operations. A hypothetical change of 10% in exchange rates would not have materially affected our operating results.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures . Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13-a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of April 2, 2016 . Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of April 2, 2016 , our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to 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, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

For a discussion of legal proceedings, see Note 6, “Commitments and Contingencies,” in the notes to our condensed consolidated financial statements.

Further, we are and, from time to time, we may become, involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any other legal proceedings that in the opinion of our management, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition, or cash flows.

Item 1A. RISK FACTORS

An investment in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our condensed consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. Our business, operating results, financial condition, or prospects could be materially and adversely affected by any of these risks and uncertainties. If any of these risks actually occurs, the trading price of our Class A common stock could decline and you might lose all or part of your investment. Our business, operating results, financial performance, or prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material.

Risks Related to Our Business

We operate in a highly competitive market. If we do not compete effectively, our prospects, operating results, and financial condition could be adversely affected.

The connected health and fitness devices market is highly competitive, with companies offering a variety of competitive products and services. We expect competition in our market to intensify in the future as new and existing competitors introduce new or enhanced products and services that are potentially more competitive than our products and services. The connected health and fitness devices market has a multitude of participants, including specialized consumer electronics companies, such as Garmin, Jawbone, and Misfit, traditional health and fitness companies, such as adidas and Under Armour, and traditional watch companies such as Fossil and Movado. In addition, many large, broad-based consumer electronics companies either compete in our market or adjacent markets or have announced plans to do so, including Apple, Google, LG, Microsoft, and Samsung. For example, Apple introduced the Apple Watch smartwatch in 2015, with broad-based functionalities, including some health and fitness tracking capabilities, and has sold a significant volume of its smartwatches since introduction. We may also face competition from manufacturers of lower-cost devices, such as Xiaomi and its Mi Band device. In addition, we compete with a wide range of stand-alone health and fitness-related mobile apps that can be purchased or downloaded through mobile app stores. We believe many of our competitors and potential competitors have significant competitive advantages, including longer operating histories, ability to leverage their sales efforts and marketing expenditures across a broader portfolio of products and services, larger and broader customer bases, more established relationships with a larger number of suppliers, contract manufacturers, and channel partners, greater brand recognition, ability to leverage app stores which they may operate, and greater financial, research and development, marketing, distribution, and other resources than we do. Our competitors and potential competitors may also be able to develop products or services that are equal or superior to ours, achieve greater market acceptance of their products and services, and increase sales by utilizing different distribution channels than we do. Some of our competitors may aggressively discount their products and services in order to gain market share, which could result in pricing pressures, reduced profit margins, lost market share, or a failure to grow market share for us. If we are not able to compete effectively against our current or potential competitors, our prospects, operating results, and financial condition could be adversely affected.

If we are unable to anticipate and satisfy consumer preferences in a timely manner, our business may be adversely affected.

Our success depends on our ability to anticipate and satisfy consumer preferences in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Consumers may decide not to purchase our products and services as their preferences could shift rapidly to different types of connected health and fitness devices or away from these types of products and services altogether, and our future success depends in part on our ability to anticipate and respond to shifts in consumer preferences. In addition, our newer products and services that have additional features or new product designs, such as the Fitbit Charge, Fitbit Charge HR, Fitbit Surge, Fitbit Alta, and Fitbit Blaze may have higher prices than many of our earlier products and the products of some of our competitors, which may not appeal to consumers or only appeal to a smaller subset

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of consumers. It is also possible that competitors could introduce new products and services that negatively impact consumer preference for our connected health and fitness devices, which could result in decreased sales of our products and services and a loss in market share. Accordingly, if we fail to anticipate and satisfy consumer preferences in a timely manner, or if it is perceived that our future products and services will not satisfy consumer preferences, our business may be adversely affected.

If we are unable to successfully develop and timely introduce new products and services or enhance existing products and services, our business may be adversely affected.

We must continually develop and introduce new products, including trackers and accessories, and services and improve and enhance our existing products and services to maintain or increase our sales. The success of new or enhanced products and services may depend on a number of factors including, anticipating and effectively addressing consumer preferences and demand, the success of our sales and marketing efforts, timely and successful research and development, effective forecasting and management of product demand, purchase commitments, and inventory levels, effective management of manufacturing and supply costs, and the quality of or defects in our products.

The development of our products and services is complex and costly, and we typically have several products and services in development at the same time. Given the complexity, we occasionally have experienced, and could experience in the future, delays in completing the development and introduction of new and enhanced products and services. Problems in the design or quality of our products or services may also have an adverse effect on our brand, business, financial condition, and operating results. Unanticipated problems in developing products and services could also divert substantial research and development resources, which may impair our ability to develop new products and services and enhancements of existing products and services, and could substantially increase our costs. In addition, we have recently begun to offer new accessory collections in conjunction with new product introductions. If new or enhanced product and service introductions are delayed or not successful, we may not be able to achieve an acceptable return, if any, on our research and development efforts, and our business may be adversely affected.

Our operating results could be materially harmed if we are unable to accurately forecast consumer demand for our products and services and adequately manage our inventory.

To ensure adequate inventory supply, we must forecast inventory needs and expenses and place orders sufficiently in advance with our suppliers and contract manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products, including trackers and accessories, and services could be affected by many factors, including an increase or decrease in customer demand for our products and services or for products and services of our competitors, product and service introductions by competitors, unanticipated changes in general market conditions, and the weakening of economic conditions or consumer confidence in future economic conditions. Due to the recent rapid growth in demand for our connected health and fitness devices, and particularly in connection with new product introductions, we face challenges acquiring adequate and timely supplies of our products to satisfy the levels of demand, which we believe negatively affects our revenue. This risk may be exacerbated by the fact that we may not carry a significant amount of inventory, either directly or with our contract manufacturers or logistics providers to satisfy short-term demand increases. In addition, as we continue to introduce new products, we may face challenges managing the inventory of existing products. If we fail to accurately forecast customer demand, we may experience excess inventory levels or a shortage of products available for sale.

Inventory levels in excess of customer demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength of our brand. Conversely, if we underestimate customer demand for our products and services, our contract manufacturers may not be able to deliver products to meet our requirements, and this could result in damage to our brand and customer relationships and adversely affect our revenue and operating results.

Our quarterly operating results or other operating metrics may fluctuate significantly, which could cause the trading price of our Class A common stock to decline.

Our quarterly operating results and other operating metrics have fluctuated in the past and may continue to fluctuate from quarter to quarter. We expect that this trend will continue as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- the level of demand for our connected health and fitness devices and our ability to maintain or increase the size and engagement of our community of users;
- the timing and success of new product and service introductions by us or our competitors or any other change in the competitive landscape of our market;
- the mix of products sold in a quarter;

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- the continued market acceptance of, and the growth of the market for, connected health and fitness devices;
- pricing pressure as a result of competition or otherwise;
- delays or disruptions in our supply, manufacturing, or distribution chain;
- errors in our forecasting of the demand for our products, which could lead to lower revenue or increased costs, or both;
- seasonal buying patterns of consumers;
- increases in and timing of sales and marketing and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- insolvency, credit, or other difficulties faced by our distributors and retailers, affecting their ability to purchase or pay for our products;
- insolvency, credit, or other difficulties confronting our suppliers, contract manufacturers, or logistics providers leading to disruptions in our supply or distribution chain;
- levels of product returns, stock rotation, and price protection rights;
- adverse litigation judgments, settlements, or other litigation-related costs;
- changes in the legislative or regulatory environment, such as with respect to privacy, information security, health and wellness devices, consumer product safety, and advertising;
- product recalls, regulatory proceedings, or other adverse publicity about our products;
- fluctuations in foreign exchange rates;
- costs related to the acquisition of businesses, talent, technologies, or intellectual property, including potentially significant amortization costs and possible write-downs; and
- general economic conditions in either domestic or international markets.

Any one of the factors above or the cumulative effect of some of the factors above may result in significant fluctuations in our operating results.

The variability and unpredictability of our quarterly operating results or other operating metrics could result in our failure to meet our expectations or those of any analysts that cover us or investors with respect to revenue or other operating results for a particular period. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our Class A common stock could fall substantially, and we could face costly lawsuits, including securities class action suits.

We rely on a limited number of suppliers, contract manufacturers, and logistics providers, and each of our products is manufactured by a single contract manufacturer.

We rely on a limited number of suppliers, contract manufacturers, and logistics providers. In particular, we use contract manufacturers located in Asia, and each of our products is manufactured by a single contract manufacturer. Flextronics is our primary contract manufacturer and is currently the sole manufacturer of the majority of our devices. Our reliance on sole contract manufacturers for each of our products increases our risks since we do not currently have any alternative or replacement manufacturers. In the event of an interruption from a contract manufacturer, we may not be able to develop alternate or secondary sources without incurring material additional costs and substantial delays. Furthermore, these risks could materially and adversely affect our business if one of our contract manufacturers is impacted by a natural disaster or other interruption at a particular location because each of our contract manufacturers produces our products from a single location. In addition, some of our suppliers, contract manufacturers, and logistics providers may have more established relationships with our competitors and potential competitors, and as a result of such relationships, such suppliers, contract manufacturers, and logistics providers may choose to limit or terminate their relationship with us.

If we experience significantly increased demand, or if we need to replace an existing supplier, contract manufacturer, or logistics provider, we may be unable to supplement or replace such supply, contract manufacturing, or logistics capacity on terms that are acceptable to us, which may undermine our ability to deliver our products to customers in a timely manner. For example, for certain of our products, it may take a significant amount of time to identify a contract manufacturer that has the capability and resources to build the product to our specifications in sufficient volume. Identifying suitable suppliers, contract manufacturers, and logistics providers is an extensive process that requires us to become satisfied with their quality control, technical capabilities, responsiveness and service, financial stability, regulatory compliance, and labor and other ethical practices. Accordingly, a loss of any key supplier, contract manufacturer, or logistics provider could adversely impact our revenue and operating results.

We have limited control over our suppliers, contract manufacturers, and logistics providers, which subjects us to significant risks, including the potential inability to obtain or produce quality products on a timely basis or in sufficient quantity.

We have limited control over our suppliers, contract manufacturers, and logistics providers, including aspects of their specific manufacturing processes and their labor, environmental, or other practices, which subjects us to significant risks, including the following:

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- inability to satisfy demand for our products;
- reduced control over delivery timing and product reliability;
- reduced ability to oversee the manufacturing process and components used in our products;
- reduced ability to monitor compliance with our product manufacturing specifications;
- reduced ability to develop comprehensive manufacturing specifications that take into account materials shortages, materials substitutions, and variance in the manufacturing capabilities of our third-party contract manufacturers;
- price increases;
- the failure of a key supplier, contract manufacturer, or logistics provider to perform its obligations to us for technical, market, or other reasons;
- difficulties in establishing additional contract manufacturing relationships if we experience difficulties with our existing contract manufacturers;
- shortages of materials or components;
- misappropriation of our intellectual property;
- exposure to natural catastrophes, political unrest, terrorism, labor disputes, and economic instability resulting in the disruption of trade from foreign countries in which our products are manufactured;
- changes in local economic conditions in countries where our suppliers, contract manufacturers, or logistics providers are located;
- the imposition of new laws and regulations, including those relating to labor conditions, quality and safety standards, imports, duties, taxes, and other charges on imports, as well as trade restrictions and restrictions on currency exchange or the transfer of funds; and
- insufficient warranties and indemnities on components supplied to our contract manufacturers.

If there are defects in the manufacture of our products by our contract manufacturers, we may face negative publicity, government investigations, and litigation and we may not be fully compensated by our contract manufacturers for any financial or other liability that we suffer as a result.

Because many of the key components in our products come from limited or sole sources of supply, we are susceptible to supply shortages, long lead times for components, and supply changes, any of which could disrupt our supply chain.

Many of the key components used to manufacture our products come from limited or sole sources of supply. Our contract manufacturers generally purchase these components on our behalf, subject to certain approved supplier lists. We are therefore subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify components used in our products. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. We have in the past experienced and may in the future experience component shortages, and the predictability of the availability of these components may be limited. While component shortages have historically been immaterial, they could be material in the future. In the event of a component shortage or supply interruption from suppliers of these components, we may not be able to develop alternate sources in a timely manner. Developing alternate sources of supply for these components may be time-consuming, difficult, and costly and we may not be able to source these components on terms that are acceptable to us, or at all, which may undermine our ability to meet our requirements or to fill our orders in a timely manner. Any interruption or delay in the supply of any of these parts or components, or the inability to obtain these parts or components from alternate sources at acceptable prices and within a reasonable amount of time, would harm our ability to meet our scheduled product deliveries to our customers and users. This could harm our relationships with our channel partners and users and could cause delays in shipment of our products and adversely affect our operating results. In addition, increased component costs could result in lower gross margins. If we are unable to buy these components in quantities sufficient to meet our requirements on a timely basis, we will not be able to deliver products and services to our customers and users.

Our current and future products and services may experience quality problems from time to time that can result in adverse publicity, product recalls, litigation, regulatory proceedings, and warranty claims resulting in significant direct or indirect costs, decreased revenue and operating margin, and harm to our brand.

We sell complex products and services that could contain design and manufacturing defects in their materials, hardware, and firmware. These defects could include defective materials or components, or “bugs” that can unexpectedly interfere with the products’ intended operations or cause injuries to users or property. Although we extensively and rigorously test new and enhanced products and services before their release, there can be no assurance we will be able to detect, prevent, or fix all defects.

Failure to detect, prevent, or fix defects could result in a variety of consequences including greater number of returns of products than expected from users and retailers, regulatory proceedings, product recalls, and litigation, which could harm our revenue and operating results. We generally provide a 45-day right of return for purchases through Fitbit.com and a 12-month

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warranty on all of our products, except in the European Union, where we provide a two-year warranty on all of our products. The occurrence of real or perceived quality problems or material defects in our current and future products could expose us to warranty claims in excess of our current reserves. As of December 31, 2015, our reserves for warranty claims were \$40.2 million, or 2% of our revenue for 2015. Moreover, we offer limited stock rotation rights and price protection to our distributors. If we experience greater returns from retailers or users in excess of our reserves, our business and operating results could be harmed. In addition, any negative publicity or lawsuits filed against us related to the perceived quality and safety of our products could also affect our brand and decrease demand for our products and services, and adversely affect our operating results and financial condition.

An economic downturn or economic uncertainty may adversely affect consumer discretionary spending and demand for our products and services.

Our products and services may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, and other factors, such as consumer confidence in future economic conditions, fears of recession, the availability and cost of consumer credit, levels of unemployment, and tax rates. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products and services and consumer demand for our products and services may not grow as we expect. Our sensitivity to economic cycles and any related fluctuation in consumer demand for our products and services may have an adverse effect on our operating results and financial condition.

The market for connected health and fitness devices is still in the early stages of growth and if it does not continue to grow, grows more slowly than we expect, or fails to grow as large as we expect, our business and operating results would be harmed.

The market for connected health and fitness devices is relatively new and unproven, and it is uncertain whether connected health and fitness devices will sustain high levels of demand and wide market acceptance. Our success will depend to a substantial extent on the willingness of people to widely adopt these products and services. In part, adoption of our products and services will depend on the increasing prevalence of connected health and fitness devices as well as new entrants to the connected health and fitness device market to raise the profile of both the market as a whole and our own platform. Our connected health and fitness devices have largely been used to measure and track activities such as walking, running, and sleeping. However, they have not been as widely adopted for other sports, exercise, and activities such as cycling, skiing, and swimming for which other niche products are more often used. Furthermore, some individuals may be reluctant or unwilling to use connected health and fitness devices because they have concerns regarding the risks associated with data privacy and security. If the wider public does not perceive the benefits of our connected health and fitness devices or chooses not to adopt them as a result of concerns regarding privacy or data security or for other reasons, then the market for these products and services may not further develop, it may develop more slowly than we expect, or it may not achieve the growth potential we expect it to, any of which would adversely affect our operating results. The development and growth of this relatively new market may also prove to be a short-term trend.

We have in the past, and may in the future, be subject to claims and lawsuits alleging that our products fail to provide accurate measurements and data to our users.

Our products are used to track and display various information about users' activities, such as daily steps taken, calories burned, distance traveled, floors climbed, active minutes, sleep duration and quality, and heart rate and GPS-based information such as speed, distance, and exercise routes. From time to time, there have been reports and claims made against us alleging that our products do not provide accurate measurements and data to users, including claims asserting that certain features of our products do not operate as advertised. Such reports and claims have resulted in negative publicity, and, in some cases, have required us to expend time and resources to defend litigation. For example, in the first quarter of 2016, class action lawsuits were filed against us based upon claims that the PurePulse heart rate monitoring technology in the Fitbit Charge HR and Fitbit Surge do not consistently and accurately record users' heart rates. If our products fail to provide accurate measurements and data to users, or if there are reports or claims of inaccurate measurements, claims of false advertisement, or claims regarding the overall health benefits of our products and services in the future, we may become the subject of negative publicity, litigation, including class action litigation, regulatory proceedings, and warranty claims, and our brand, operating results, and business could be harmed.

The failure to effectively manage the introduction of new or enhanced products may adversely affect our operating results.

We must successfully manage introductions of new or enhanced products. Introductions of new or enhanced products, including trackers and accessories, could adversely impact the sales of our existing products to retailers and consumers. For instance, retailers often purchase less of our existing products in advance of new product launches. Furthermore, we may experience greater returns from retailers or users of existing products or retailers may be granted stock rotation rights and price protection. Moreover, consumers may decide to purchase new or enhanced products instead of existing products. We may face challenges managing the

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inventory of existing products, which could lead to excess inventory and discounting of our existing products. In addition, we have historically incurred higher levels of sales and marketing expenses accompanying each product introduction. Accordingly, if we fail to effectively manage introductions of new or enhanced products, our operating results could be harmed.

Our failure or inability to protect our intellectual property rights, or claims by others that we are infringing upon or unlawfully using their intellectual property could diminish the value of our brand and weaken our competitive position, and adversely affect our business, financial condition, operating results, and prospects.

We currently rely on a combination of patent, copyright, trademark, trade secret, and unfair competition laws, as well as confidentiality agreements and procedures and licensing arrangements, to establish and protect our intellectual property rights. We have devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, licensees, independent contractors, commercial partners, and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. We cannot be certain that the steps taken by us to protect our intellectual property rights will be adequate to prevent infringement of such rights by others, including imitation of our products and misappropriation of our brand. Additionally, the process of obtaining patent or trademark protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications or apply for all necessary or desirable trademark applications at a reasonable cost or in a timely manner. We have obtained and applied for U.S. and foreign trademark registrations for the “Fitbit” brand and a variety of our product names, and will continue to evaluate the registration of additional trademarks as appropriate. However, we cannot guarantee that any of our pending trademark or patent applications will be approved by the applicable governmental authorities. Moreover, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our intellectual property rights as fully as in the United States, and it may be more difficult for us to successfully challenge the use of our intellectual property rights by other parties in these countries. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and our failure or inability to obtain or maintain trade secret protection or otherwise protect our proprietary rights could adversely affect our business.

We are and may in the future be subject to patent infringement and trademark claims and lawsuits in various jurisdictions, and we cannot be certain that our products or activities do not violate the patents, trademarks, or other intellectual property rights of third-party claimants. Companies in the technology industry and other patent, copyright, and trademark holders seeking to profit from royalties in connection with grants of licenses own large numbers of patents, copyrights, trademarks, domain names, and trade secrets and frequently commence litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. As we face increasing competition and gain an increasingly high profile, the intellectual property rights claims against us and asserted by us have grown and will likely continue to grow. For example, we are currently involved in litigation with Aliphcom, Inc. d/b/a Jawbone, or Jawbone and its subsidiaries, which is described in Note 6, “Commitments and Contingencies” in the notes to our condensed consolidated financial statements.

We intend to vigorously defend and prosecute these litigation matters and, based on our review, we believe we have valid defenses and claims with respect to each of these matters. However, litigation is inherently uncertain, and any judgment or injunctive relief entered against us or any adverse settlement could materially and adversely impact our business, financial condition, operating results, and prospects. In addition, litigation can involve significant management time and attention and can be expensive, regardless of outcome. During the course of these litigation matters, there may be announcements of the results of hearings and motions, and other interim developments related to the litigation matters. If securities analysts or investors regard these announcements as negative, the market price of our common stock may decline.

Further, from time to time, we have received and may continue to receive letters from third parties alleging that we are infringing upon their intellectual property rights. Successful infringement claims against us could result in significant monetary liability, prevent us from selling some of our products and services, or require us to change our branding. In addition, resolution of claims may require us to redesign our products, license rights from third parties at a significant expense, or cease using those rights altogether. We have also in the past and may in the future bring claims against third parties for infringing our intellectual property rights. Costs of supporting such litigation and disputes may be considerable, and there can be no assurances that a favorable outcome will be obtained. Patent infringement, trademark infringement, trade secret misappropriation, and other intellectual property claims and proceedings brought against us or brought by us, whether successful or not, could require significant attention of our management and resources and have in the past and could further result in substantial costs, harm to our brand, and have an adverse effect on our business.

We may not be able to sustain our revenue growth or profitability in the future.

Our recent revenue growth should not be considered indicative of our future performance. As we grow our business, we expect our revenue growth to slow in future periods due to a number of reasons, which may include slowing demand for our products and services, increasing competition, a decrease in the growth of our overall market, our failure, for any reason, to continue to capitalize on growth opportunities, or the maturation of our business. Due to competitive pricing pressures, new product introductions by us or our competitors, or other factors, the average selling price or gross margins of our products and services may decrease. If we are unable to offset any decreases in our average selling price or gross margins by increasing our sales volumes or by adjusting our product mix, our operating results and financial condition may be harmed.

While we have been profitable since 2014, we have not consistently achieved profitability on a quarterly or annual basis. We expect expenses to increase substantially in the near term, particularly as we make significant investments in our research and development and sales and marketing, expand our operations and infrastructure both domestically and internationally, develop new products and services, and enhance our existing products and services. In addition, we expect to incur additional significant legal, accounting, and other expenses in connection with operating as a public company. If our revenue does not increase to offset these increases in our operating expenses, we may not be profitable in future periods.

Our operating margins may decline as a result of increasing product costs and operating expenses.

Our business is subject to significant pressure on pricing and costs caused by many factors, including intense competition, the cost of components used in our products, labor costs, constrained sourcing capacity, inflationary pressure, pressure from users to reduce the prices we charge for our products and services, and changes in consumer demand. Costs for the raw materials used in the manufacture of our products are affected by, among other things, energy prices, consumer demand, fluctuations in commodity prices and currency, and other factors that are generally unpredictable and beyond our control. Increases in the cost of raw materials used to manufacture our products or in the cost of labor and other costs of doing business in the United States and internationally could have an adverse effect on, among other things, the cost of our products, gross margins, operating results, financial condition, and cash flows. Moreover, if we are unable to offset any decreases in our average selling price by increasing our sales volumes or by adjusting our product mix, our operating results and financial condition may be harmed.

In addition, we expect expenses to increase substantially in the near term, particularly as we make significant investments in our research and development and sales and marketing organizations, expand our operations and infrastructure both domestically and internationally, develop new products and services, and enhance our existing products and services. In addition, we expect to incur additional significant legal, accounting, and other expenses in connection with operating as a public company. If our revenue does not increase to offset these increases in our operating expenses, our operating results and financial condition may be harmed.

Our business is affected by seasonality.

Our revenue and operating results are affected by general seasonal spending trends associated with holidays. For example, our fourth quarter has typically been our strongest quarter in terms of revenue and operating income, reflecting our historical strength in sales during the holiday season. We generated approximately 38%, 50%, and 40% of our full year revenue during the fourth quarters of 2015, 2014, and 2013, respectively. Accordingly, any shortfall in expected fourth quarter revenue would adversely affect our annual operating results. Furthermore, our rapid growth in recent years may obscure the extent to which seasonality trends have affected our business and may continue to affect our business. Accordingly, yearly or quarterly comparisons of our operating results may not be useful and our results in any particular period will not necessarily be indicative of the results to be expected for any future period. Seasonality in our business can also be impacted by introductions of new or enhanced products and services, including the costs associated with such introductions.

Any material disruption of our information technology systems, or those of third-party partners and data center providers could materially damage user and business partner relationships, and subject us to significant reputational, financial, legal, and operational consequences.

We depend on our information technology systems, as well as those of third parties, to develop new products and services, operate our website, host and manage our services, store data, process transactions, respond to user inquiries, and manage inventory and our supply chain. Any material disruption or slowdown of our systems or those of third parties whom we depend upon, including a disruption or slowdown caused by our failure to successfully manage significant increases in user volume or successfully upgrade our or their systems, system failures, or other causes, could cause outages or delays in our services, which could harm our brand and adversely affect our operating results. In addition, such disruption could cause information, including data related to orders, to be lost or delayed which could—especially if the disruption or slowdown occurred during the holiday season—result in delays in the delivery of products to stores and users or lost sales, which could reduce demand for our merchandise, harm our brand and

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reputation, and cause our revenue to decline. Problems with our third-party data center service providers, the telecommunications network providers with whom they contract, or with the systems by which telecommunications providers allocate capacity among their users could adversely affect the experience of our users. Our third-party data center service providers could decide to close their facilities or cease providing us services without adequate notice. Any changes in third-party service levels at our data centers or any errors, defects, disruptions, or other performance problems with our platform could harm our brand and may damage the data of our users. If changes in technology cause our information systems, or those of third parties whom we depend upon, to become obsolete, or if our or their information systems are inadequate to handle our growth, we could lose users and our business and operating results could be adversely affected.

We collect, store, process, and use personal information and other customer data, which subjects us to governmental regulation and other legal obligations related to privacy, information security, and data protection, and any security breaches or our actual or perceived failure to comply with such legal obligations could harm our business.

We collect, store, process, and use personal information and other user data, and we rely on third parties that are not directly under our control to do so as well. Our users' health and fitness-related data and other highly personal information may include, among other information, names, addresses, phone numbers, email addresses, payment account information, height, weight, and biometric information such as heart rates, sleeping patterns, GPS-based location, and activity patterns. Due to the volume and sensitivity of the personal information and data we manage and the nature of our products, the security features of our platform and information systems are critical. If our security measures, some of which are managed by third parties, are breached or fail, unauthorized persons may be able to obtain access to or acquire sensitive user data. If we or our third-party service providers, business partners, or third-party apps with which our users choose to share their Fitbit data were to experience a breach of systems compromising our users' sensitive data, our brand and reputation could be adversely affected, use of our products and services could decrease, and we could be exposed to a risk of loss, litigation, and regulatory proceedings. Depending on the nature of the information compromised, in the event of a data breach or other unauthorized access to or acquisition of our user data, we may also have obligations to notify users about the incident and we may need to provide some form of remedy, such as a subscription to a credit monitoring service, for the individuals affected by the incident. A growing number of legislative and regulatory bodies have adopted consumer notification requirements in the event of unauthorized access to or acquisition of certain types of personal data. Such breach notification laws continue to evolve and may be inconsistent from one jurisdiction to another. Complying with these obligations could cause us to incur substantial costs and could increase negative publicity surrounding any incident that compromises user data. Our users may also accidentally disclose or lose control of their passwords, creating the perception that our systems are not secure against third-party access. Additionally, if third-party service providers that host user data on our behalf experience security breaches or violate applicable laws, agreements, or our policies, such events may also put our users' information at risk and could in turn have an adverse effect on our business. While we maintain insurance coverage that, subject to policy terms and conditions and a significant self-insured retention, is designed to address certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in the event we experience a security breach.

Our success depends on our ability to maintain our brand. If events occur that damage our brand, our business and financial results may be harmed.

Our success depends on our ability to maintain the value of the "Fitbit" brand. The "Fitbit" name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting, and positioning our brand will depend largely on the success of our marketing and merchandising efforts, our ability to provide consistent, high quality products and services, and our ability to successfully secure, maintain, and defend our rights to use the "Fitbit" mark and other trademarks important to our brand. Our brand could be harmed if we fail to achieve these objectives or if our public image or brand were to be tarnished by negative publicity. For example, there has been media coverage of some of the users of our products reporting skin irritation, as well as personal injury lawsuits filed against us relating to the Fitbit Zip, Fitbit One, Fitbit Flex, Fitbit Charge, Fitbit Charge HR, and Fitbit Surge products. We also believe that our reputation and brand may be harmed if we fail to maintain a consistently high level of customer service. In addition, we believe the popularity of the "Fitbit" brand makes it a target for counterfeiting or imitation, with third parties attempting to sell counterfeit products that attempt to replicate our products.

In addition, our products may be diverted from our authorized retailers and distributors and sold on the "gray market." Gray market products result in shadow inventory that is not visible to us, thus making it difficult to forecast demand accurately. Also, when gray market products enter the market, we and our channel partners compete with often heavily discounted gray market products, which adversely affects demand for our products and negatively impacts our margins. In addition, our inability to control gray market activities could result in user satisfaction issues, which may have a negative impact on our brand. When products are purchased outside our authorized retailers and distributors, there is a risk that our customers are buying substandard products, including products that may have been altered, mishandled, or damaged, or used products represented as new.

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Any occurrence of counterfeiting, imitation, or confusion with our brand could adversely affect our reputation, place negative pricing pressure on our products, reduce sales of our products, and impair the value of our brand. Maintaining, protecting, and enhancing our brand may require us to make substantial investments, and these investments may not be successful. If we fail to successfully maintain, promote, and position our brand and protect our reputation or if we incur significant expenses in this effort, our business, financial condition and operating results may be adversely affected.

Cybersecurity risks could adversely affect our business and disrupt our operations.

The threats to network and data security are increasingly diverse and sophisticated. Despite our efforts and processes to prevent breaches, our devices, as well as our servers, computer systems, and those of third parties that we use in our operations are vulnerable to cybersecurity risks, including cyber attacks such as viruses and worms, phishing attacks, denial-of-service attacks, physical or electronic break-ins, employee theft or misuse, and similar disruptions from unauthorized tampering with our servers and computer systems or those of third parties that we use in our operations, which could lead to interruptions, delays, loss of critical data, unauthorized access to user data, and loss of consumer confidence. In addition, we may be the target of email scams that attempt to acquire sensitive information or company assets. Despite our efforts to create security barriers to such threats, we may not be able to entirely mitigate these risks. Any cyber attack that attempts to obtain our or our users' data and assets, disrupt our service, or otherwise access our systems, or those of third parties we use, if successful, could adversely affect our business, operating results, and financial condition, be expensive to remedy, and damage our reputation. In addition, any such breaches may result in negative publicity, adversely affect our brand, decrease demand for our products and services, and adversely affect our operating results and financial condition.

We spend significant amounts on advertising and other marketing campaigns to acquire new users, which may not be successful or cost-effective.

We spend significant amounts on advertising and other marketing campaigns, such as television, cinema, print advertising, and social media, as well as increased promotional activities, to acquire new users and we expect our marketing expenses to increase in the future as we continue to spend significant amounts to acquire new users and increase awareness of our products and services. In 2015 and the three months ended April 2, 2016, advertising expenses were \$237.0 million and \$65.2 million, respectively, representing approximately 13% of our revenue for both periods, respectively. While we seek to structure our advertising campaigns in the manner that we believe is most likely to encourage people to use our products and services, we may fail to identify advertising opportunities that satisfy our anticipated return on advertising spend as we scale our investments in marketing, accurately predict user acquisition, or fully understand or estimate the conditions and behaviors that drive user behavior. If for any reason any of our advertising campaigns prove less successful than anticipated in attracting new users, we may not be able to recover our advertising spend, and our rate of user acquisition may fail to meet market expectations, either of which could have an adverse effect on our business. There can be no assurance that our advertising and other marketing efforts will result in increased sales of our products and services.

Our financial performance is subject to risks associated with changes in the value of the U.S. dollar versus local currencies.

Our primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar denominated sales and operating expenses worldwide. Weakening of foreign currencies relative to the U.S. dollar adversely affects the U.S. dollar value of our foreign currency-denominated sales and earnings, and generally leads us to raise international pricing, potentially reducing demand for our products. In some circumstances, for competitive or other reasons, we may decide not to raise local prices to fully offset the strengthening of the U.S. dollar, or at all, which would adversely affect the U.S. dollar value of our foreign currency denominated sales and earnings. Conversely, a strengthening of foreign currencies relative to the U.S. dollar, while generally beneficial to our foreign currency-denominated sales and earnings, could cause us to reduce international pricing, incur losses on our foreign currency derivative instruments, and incur increased operating expenses, thereby limiting any benefit. Additionally, strengthening of foreign currencies may also increase our cost of product components denominated in those currencies, thus adversely affecting gross margins.

We use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. In addition, our counterparties may be unable to meet the terms of the agreements. We seek to mitigate this risk by limiting counterparties to major financial institutions and by spreading the risk across several major financial institutions.

We depend on retailers and distributors to sell and market our products, and our failure to maintain and further develop our sales channels could harm our business.

We primarily sell our products through retailers and distributors and depend on these third-parties to sell and market our products to consumers. Any changes to our current mix of retailers and distributors could adversely affect our gross margin and could negatively affect both our brand image and our reputation. Our sales depend, in part, on retailers adequately displaying our products, including providing attractive space and point of purchase, or POP, displays in their stores, and training their sales personnel to sell our products. If our retailers and distributors are not successful in selling our products or overestimate demand for our products, our revenue would decrease and we could experience lower gross margin due to product returns or price protection claims. Our retailers also often offer products and services of our competitors in their stores. In addition, our success in expanding and entering into new markets internationally will depend on our ability to establish relationships with new retailers and distributors. We also sell and will need to continue to expand our sales through online retailers, such as Amazon.com. If we do not maintain our relationship with existing retailers and distributors or develop relationships with new retailers and distributors our ability to sell our products and services could be adversely affected and our business may be harmed.

In 2015 and for the three months ended April 2, 2016, our five largest retailers and distributors accounted for approximately 55% and 53% of our revenue, respectively. Of these retailers and distributors, Winit Distribution, Best Buy, and Amazon.com accounted for approximately 15%, 14%, and 14% of our revenue for 2015, respectively, and approximately 18%, 9%, and 12% of our revenue for the three months ended April 2, 2016, respectively. Accordingly, the loss of a small number of our large retailers and distributors, or the reduction in business with one or more of these retailers and distributors, could have a significant adverse impact on our operating results. While we have agreements with these large retailers and distributors, these agreements do not require them to purchase any meaningful amount of our products.

Consolidation of retailers or concentration of retail market share among a few retailers may increase and concentrate our credit risk and impair our ability to sell products.

The wearable, fitness, and electronics retail markets in some countries are dominated by a few large retailers with many stores. These retailers have in the past increased their market share and may continue to do so in the future by expanding through acquisitions and construction of additional stores. These situations concentrate our credit risk with a relatively small number of retailers, and, if any of these retailers were to experience a shortage of liquidity, it would increase the risk that their outstanding payables to us may not be paid. In addition, increasing market share concentration among one or a few retailers in a particular country or region increases the risk that if any one of them substantially reduces their purchases of our connected health and fitness devices, we may be unable to find a sufficient number of other retail outlets for our products to sustain the same level of sales. Any reduction in sales by our retailers would adversely affect our revenue, operating results, and financial condition.

The insolvency, credit problems, or other financial difficulties confronting our retailers and distributors could expose us to financial risk.

Some of our retailers and distributors have experienced financial difficulties in the past. The insolvency, credit problems, or other financial difficulties confronting our retailers and distributors could expose us to financial risk. In addition, if the credit capacity of any retailers or distributors and accounts receivable balances increase, we may be subject to additional financial risk. Financial difficulties of our retailers and distributors could impede their effectiveness and also expose us to risks if they are unable to pay for the products they purchase from us. The difficulties of retailers and distributors may also lead to price cuts of our products and adverse effects on our brand and operating results. Any reduction in sales by our current retailers or distributors, loss of large resellers or distributors, or decrease in revenue from our retailers or distributors could adversely affect our revenue, operating results, and financial condition.

If we continue to grow at a rapid pace, we may not be able to effectively manage our growth and the increased complexity of our business, which could negatively impact our brand and financial performance.

We were founded in 2007 and have expanded our operations rapidly since our inception. Our employee headcount and the scope and complexity of our business have increased significantly, with the number of employees increasing from 469 as of December 31, 2014 to 1,101 as of December 31, 2015 to 1,306 as of April 2, 2016, and we expect headcount growth to continue for the foreseeable future. If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining components for our products in quantities sufficient to meet market demand, as well as delays in production and shipments, as our products are subject to risks associated with third-party sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development, and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space for our expanding workforce. This expansion could increase the strain on our resources, and we could experience serious operating difficulties, including difficulties in hiring, training, and managing an

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increasing number of employees. If we do not adapt to meet these evolving challenges, and if the current and future members of our management team do not effectively scale with our growth, we may experience erosion to our brand, the quality of our products and services may suffer, and our corporate culture may be harmed.

Because we have only a limited history operating our business at its current scale, it is difficult to evaluate our current business and future prospects, including our ability to plan for and model future growth. Our limited operating experience at this scale, combined with the rapidly evolving nature of the market in which we sell our products and services, substantial uncertainty concerning how these markets may develop, and other economic factors beyond our control, reduces our ability to accurately forecast quarterly or annual revenue. As such, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more developed and predictable market. Failure to manage our future growth effectively could have an adverse effect on our business, which, in turn, could have an adverse impact on our operating results and financial condition.

Our failure to comply with U.S. and foreign laws related to privacy, data security, and data protection, such as the E.U. General Data Protection Regulation, which covers the transfer of personal data from the European Union to the United States, could adversely affect our financial condition, operating results, and our brand.

We are or may become subject to a variety of laws and regulations in the United States and abroad regarding privacy, data protection, and data security. These laws and regulations are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly with respect to foreign laws.

In particular, there are numerous U.S. federal, state, and local laws and regulations and foreign laws and regulations regarding privacy and the collection, sharing, use, processing, disclosure, and protection of personal information and other user data, the scope of which is changing, subject to differing interpretations, and may be inconsistent among different jurisdictions. We strive to comply with all applicable laws, policies, legal obligations, and industry codes of conduct relating to privacy, data security, and data protection. However, given that the scope, interpretation, and application of these laws and regulations are often uncertain and may be conflicting, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure to comply with our privacy or security policies or privacy-related legal obligations by us or third-party service-providers or the failure or perceived failure by third-party apps, with which our users choose to share their Fitbit data, to comply with their privacy policies or privacy-related legal obligations as they relate to the Fitbit data shared with them, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, may result in governmental enforcement actions, litigation, or negative publicity, and could have an adverse effect on our brand and operating results.

We have certified that we comply with the U.S.-E.U. Safe Harbor Framework as developed by the U.S. Department of Commerce, which has historically provided a method for U.S. companies operating within the European Union to transfer personal data from citizens of E.U. member countries to the United States in a way that is consistent with the E.U. Data Protection Directive. However, the Court of Justice of the European Union has declared the U.S.-E.U. Safe Harbor Framework invalid. On February 2, 2016, the United States and the European Commission agreed to a new framework for transatlantic data flows called the “EU-U.S Privacy Shield.” The text of the new framework was released on February 29, 2016, but the E.U.-U.S. Privacy Shield still needs to be formally approved by the European Commission before becoming effective. We will need to assess the specific requirements of the Privacy Shield to determine whether we can comply with the new framework. If we are unable to comply with the EU-U.S. Privacy Shield, or if the Privacy Shield does not become effective, we will need to implement alternative solutions, such as Model Clauses or Binding Corporate Rules, to ensure that data transfers from the E.U. to the U.S. provide adequate protections to comply with the E.U. Data Protection Directive. If we fail to implement alternative data transfer solutions, or if national data protection authorities in the European Union (DPAs) do not deem such alternative solutions to be adequate, one or more DPAs could bring enforcement actions seeking to prohibit or suspend our data transfers to the U.S. and we could also face additional legal liability, fines, negative publicity, and resulting loss of business.

Certain health-related laws and regulations such as the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Health Information Technology for Economic and Clinical Health Act, or HITECH, may have an impact on our business. For example, in September 2015 we announced that we intend to offer HIPAA compliant capabilities to certain customers of our corporate wellness offerings who are “covered entities” under HIPAA, which may include our execution of Business Associate Agreements with such covered entities. In addition, changes in applicable laws and regulations may result in the user data we collect being deemed protected health information, or PHI, under HIPAA and HITECH. If we are unable to comply with the applicable privacy and security requirements under HIPAA and HITECH, or we fail to comply with Business Associate Agreements that we enter into with covered entities, we could be subject to claims, legal liabilities, penalties, fines, and negative publicity, which could harm our operating results.

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Governments are continuing to focus on privacy and data security and it is possible that new privacy or data security laws will be passed or existing laws will be amended in a way that is material to our business. Any significant change to applicable laws, regulations, or industry practices regarding our users' data could require us to modify our services and features, possibly in a material manner, and may limit our ability to develop new products, services, and features. Although we have made efforts to design our policies, procedures, and systems to comply with the current requirements of applicable state, federal, and foreign laws, changes to applicable laws and regulations in this area could subject us to additional regulation and oversight, any of which could significantly increase our operating costs.

Our business and products are subject to a variety of additional U.S. and foreign laws and regulations that are central to our business; our failure to comply with these laws and regulations could harm our business or our operating results.

We are or may become subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including laws and regulations regarding consumer protection, advertising, electronic commerce, intellectual property, manufacturing, anti-bribery and anti-corruption, and economic or other trade prohibitions or sanctions.

The labeling, distribution, importation, marketing, and sale of our products are subject to extensive regulation by various U.S. state and federal and foreign agencies, including the CPSC, Federal Trade Commission, Food and Drug Administration, or FDA, Federal Communications Commission, and state attorneys general, as well as by various other federal, state, provincial, local, and international regulatory authorities in the countries in which our products and services are distributed or sold. If we fail to comply with any of these regulations, we could become subject to enforcement actions or the imposition of significant monetary fines, other penalties, or claims, which could harm our operating results or our ability to conduct our business.

The global nature of our business operations also create various domestic and foreign regulatory challenges and subject us to laws and regulations such as the U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act, and similar anti-bribery and anti-corruption laws in other jurisdictions, and our products are also subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls. If we become liable under these laws or regulations, we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to discontinue certain products or services, which would negatively affect our business, financial condition, and operating results. In addition, the increased attention focused upon liability issues as a result of lawsuits, regulatory proceedings, and legislative proposals could harm our brand or otherwise impact the growth of our business. Any costs incurred as a result of compliance or other liabilities under these laws or regulations could harm our business and operating results.

Our international operations subject us to additional costs and risks, and our continued expansion internationally may not be successful.

We have entered into many international markets in a relatively short time and may enter into additional markets in the future. Outside of the United States, we currently have operations in Australia and a number of countries in Asia and Europe. There are significant costs and risks inherent in conducting business in international markets, including:

- establishing and maintaining effective controls at foreign locations and the associated increased costs;
- adapting our technologies, products, and services to non-U.S. consumers' preferences and customs;
- variations in margins by geography;
- increased competition from local providers of similar products;
- longer sales or collection cycles in some countries;
- compliance with foreign laws and regulations;
- compliance with the laws of numerous taxing jurisdictions where we conduct business, potential double taxation of our international earnings, and potentially adverse tax consequences due to U.S. and foreign tax laws as they relate to our international operations;
- compliance with anti-bribery laws, such as the FCPA and the U.K. Bribery Act, by us, our employees, and our business partners;
- complexity and other risks associated with current and future foreign legal requirements, including legal requirements related to consumer protection, consumer product safety, and data privacy frameworks, such as the E.U. General Data Protection Regulation, and applicable privacy and data protection laws in foreign jurisdictions where we currently conduct business or intend to conduct business in the future;
- currency exchange rate fluctuations and related effects on our operating results;
- economic and political instability in some countries, particularly those in China where we have expanded;
- the uncertainty of protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad; and
- other costs of doing business internationally.

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These factors and other factors could harm our international operations and, consequently, materially impact our business, operating results, and financial condition. Further, we may incur significant operating expenses as a result of our international expansion, and it may not be successful. We have limited experience with regulatory environments and market practices internationally, and we may not be able to penetrate or successfully operate in new markets. We may also encounter difficulty expanding into new international markets because of limited brand recognition in certain parts of the world, leading to delayed acceptance of our products and services by users in these new international markets. If we are unable to continue to expand internationally and manage the complexity of our global operations successfully, our financial condition and operating results could be adversely affected.

Our future success depends on the continuing efforts of our key employees, including our founders, James Park and Eric N. Friedman, and on our ability to attract and retain highly skilled personnel and senior management.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. In particular, we are highly dependent on the contributions of our co-founders, James Park and Eric N. Friedman, as well as other members of our management team. The loss of any key personnel could make it more difficult to manage our operations and research and development activities, reduce our employee retention and revenue, and impair our ability to compete. Although we have generally entered into employment offer letters with our key personnel, these agreements have no specific duration and provide for at-will employment, which means they may terminate their employment relationship with us at any time.

Competition for highly skilled personnel is often intense, especially in the San Francisco Bay Area where we are located, and we may incur significant costs to attract them. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs. We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity or equity awards declines, it may adversely affect our ability to attract or retain highly skilled employees. Furthermore, there can be no assurances that the number of shares reserved for issuance under our equity incentive plans will be sufficient to grant equity awards adequate to recruit new employees and to compensate existing employees. Additionally, we have a number of current employees whose equity ownership in our company gives them a substantial amount of personal wealth. Likewise, we have a number of current employees whose equity awards are fully vested and are entitled to receive substantial amounts of our capital stock. As a result, it may be difficult for us to continue to retain and motivate these employees, and this wealth could affect their decisions about whether or not they continue to work for us. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

To date, we have derived substantially all of our revenue from sales of our connected health and fitness devices, and sales of our subscription-based premium services have historically accounted for less than 1% of our revenue.

To date, substantially all of our revenue has been derived from sales of our connected health and fitness devices, and we expect to continue to derive the substantial majority of our revenue from sales of these devices for the foreseeable future. In each of the three months ended April 2, 2016, and March 31, 2015, we derived less than 1% of our revenue from sales of our subscription-based premium services. However, in the future we expect to increase sales of subscriptions to these services. Our inability to successfully sell and market our premium services could deprive us of a potentially significant source of revenue in the future. In addition, sales of our premium services may lead to additional sales of our connected health and fitness devices and user engagement with our platform. As a result, our future growth and financial performance may depend, in part, on our ability to sell more subscriptions to our premium services.

There have been reports that some users of the Fitbit Flex, Fitbit Charge, Fitbit Charge HR, and Fitbit Surge have experienced skin irritations, which could result in additional negative publicity or otherwise harm our business. In addition, some of our users have filed personal injury lawsuits against us relating to the Fitbit Zip, Fitbit One, Fitbit Flex, Fitbit Charge, Fitbit Charge HR, and Fitbit Surge products, which could divert management's attention from our operations and result in substantial legal fees and other costs.

Due to the nature of some of our wearable devices, some users have had in the past and may in the future experience skin irritations or other biocompatibility issues not uncommon with jewelry or other wearable products that stay in contact with skin for extended periods of time. There have been reports of some users of Fitbit Flex, Fitbit Charge, Fitbit Charge HR, and Fitbit Surge experiencing skin irritations. This negative publicity could harm sales of our products and also adversely affect our relationships with retailers that sell our products, including causing them to be reluctant to continue to sell our products. In addition, some of our users have filed personal injury lawsuits against us relating to the Fitbit Zip, Fitbit One, Fitbit Flex, Fitbit Charge, Fitbit Charge HR, and Fitbit Surge products. While we do not believe that these lawsuits are material, due to the inherent uncertainties

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of litigation, we cannot accurately predict the ultimate outcome of any proceedings arising from such claims, and these actions or other third-party claims against us may result in the diversion of our management's time and attention from other aspects of our business and may cause us to incur substantial litigation or settlement costs. If large numbers of users experience these problems, we could be subject to enforcement actions or the imposition of significant monetary fines, other penalties, or proceedings by the CPSC or other U.S. or foreign regulatory agencies and face additional personal injury or class action litigation, any of which could have a material adverse impact on our business, financial condition, and operating results.

We may be subject to CPSC recalls, regulatory proceedings and litigation in various jurisdictions, including multi-jurisdiction federal and state class action and personal injury claims, which may require significant management attention and disrupt our business operations, and adversely affect our financial condition, operating results, and our brand.

We face product liability, product safety and product compliance risks relating to the sale, use and performance of our products. The products we sell must be designed and manufactured to be safe for their intended purposes. Certain of our products must comply with certain federal and state laws and regulations. For example, some of our products are subject to the Consumer Product Safety Act and the Consumer Product Safety Improvement Act, which empower the Consumer Product Safety Commission, or CPSC. The CPSC is empowered to take action against hazards presented by consumer products, up to and including product recalls. We are required to report certain incidents related to the safety and compliance of our products to the CPSC, and failure to do so could result in a civil penalty.

Our products have, from time to time, been subject to recall for product safety and compliance reasons. For example, in March 2014, we recalled one of our products, the Fitbit Force, after some of our users experienced allergic reactions to adhesives in the wristband. These reactions included skin irritation, rashes, and blistering. The recall had a negative impact on our operating results, primarily in our fourth quarter of 2013, the first quarter of 2014, and the fourth quarter of 2015. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Fitbit Force Product Recall" in this Quarterly Report on Form 10-Q for additional information regarding the financial impact of the recall on our historical operating results. We have provided and are continuing to provide full refunds to consumers who return the Fitbit Force. If returns of the Fitbit Force or other costs related to the recall are higher than anticipated, we will be required to increase our reserves related to the recall which would negatively impact our operating results in the future.

The recall is being conducted in conjunction with the CPSC, which has been monitoring recall effectiveness and compliance. In addition to the financial impacts discussed elsewhere in this Quarterly Report on Form 10-Q, this recall requires us to collect a significant amount of information for the CPSC, which takes significant time and internal and external resources.

A large number of lawsuits, including multi-jurisdiction complex federal and state class action and personal injury claims, were filed against us relating to the Fitbit Force. These litigation matters have required significant attention of our management and resources and disrupted the ordinary course of our business operations. While we have settled all of the class action lawsuits, a number of personal injury claims remain outstanding. In the fourth quarter of 2015, we received proceeds from the insurance policies that apply to these claims and related legal fees, and we recorded an accrual for liabilities arising under these claims that was immaterial and falls within the amount of the insurance proceeds received.

In addition, the CPSC conducted an investigation into several of our products. Although the CPSC has not found a substantial product hazard, there can be no assurances that investigations will not be conducted or that product hazards or other defects will not be found in the future with respect to our products. The Fitbit Force product recall, regulatory proceedings, and litigation have had and may continue to have, and any future recalls, regulatory proceedings, and litigation could have an adverse impact on our financial condition, operating results, and brand. Furthermore, because of the global nature of our product sales, in the event we experience defects with respect to products sold outside the United States, we could become subject to recalls, regulatory proceedings, and litigation by foreign governmental agencies and private litigants, which could significantly increase the costs of managing any product issues. Any ongoing and future regulatory proceedings or litigation, regardless of their merits, could further divert management's attention from our operations and result in substantial legal fees and other costs.

We are regularly subject to general litigation, regulatory disputes, and government inquiries.

We are regularly subject to claims, lawsuits, including class actions and individual lawsuits, government investigations, and other proceedings involving competition and antitrust, intellectual property, privacy, consumer protection, accessibility claims, securities, tax, labor and employment, commercial disputes, and other matters. The number and significance of these disputes and inquiries have increased as our company has grown larger, our business has expanded in scope and geographic reach, and our products and services have increased in complexity.

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The outcome and impact of such claims, lawsuits, government investigations, and proceedings cannot be predicted with certainty. Regardless of the outcome, such investigations and proceedings can have an adverse impact on us because of legal costs, diversion of management resources, and other factors. Determining reserves for our pending litigation is a complex, fact-intensive process that is subject to judgment calls. It is possible that a resolution of one or more such proceedings could require us to make substantial payments to satisfy judgments, fines or penalties or to settle claims or proceedings, any of which could harm our business. These proceedings could also result in reputational harm, criminal sanctions, or orders preventing us from offering certain products, or services, or requiring a change in our business practices in costly ways, or requiring development of non-infringing or otherwise altered products or technologies. Any of these consequences could harm our business.

Changes in legislation in U.S. and foreign taxation of international business activities or the adoption of other tax reform policies, as well as the application of such laws, could materially impact our financial position and operating results.

Recent or future changes to the U.S. and other foreign tax laws could impact the tax treatment of our foreign earnings. We generally conduct our international operations through wholly-owned subsidiaries, branches, or representative offices and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our income tax obligations are based on our corporate operating structure, including the manner in which we develop, value, and use our intellectual property, scope of our international operations, and intercompany arrangements with and amongst the subsidiaries within the company group. Our direct and indirect subsidiaries are subject to complex transfer pricing tax regulations administered by taxing authorities in various jurisdictions. Changes in the tax laws applicable to our international business activities, including the laws of the U.S. and other jurisdictions, may increase our worldwide effective tax rate, and may adversely affect our financial position, and operating results.

In addition, our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the relevant tax, accounting, and other laws, regulations, principles, and interpretations, or by changes in the valuation of our deferred tax assets and liabilities. As we operate in numerous taxing jurisdictions, the application of tax laws can be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions.

We are subject to review and audit by U.S. and other tax authorities. If any tax authority disagrees with any position we have taken, our tax liabilities and operating results may be adversely affected.

If we are unable to protect our domain names, our brand, business, and operating results could be adversely affected.

We have registered domain names for websites, or URLs, that we use in our business, such as Fitbit.com. If we are unable to maintain our rights in these domain names, our competitors or other third parties could capitalize on our brand recognition by using these domain names for their own benefit. In addition, although we own the “Fitbit” domain name under various global top level domains such as .com and .net, as well as under various country-specific domains, we might not be able to, or may choose not to, acquire or maintain other country-specific versions of the “Fitbit” domain name or other potentially similar URLs. The regulation of domain names in the United States and elsewhere is generally conducted by Internet regulatory bodies and is subject to change. If we lose the ability to use a domain name in a particular country, we may be forced to either incur significant additional expenses to market our solutions within that country, including the development of a new brand and the creation of new promotional materials, or elect not to sell our solutions in that country. Either result could substantially harm our business and operating results. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars, or modify the requirements for holding domain names. As a result, we may not be able to acquire or maintain the domain names that utilize the name “Fitbit” in all of the countries in which we currently conduct or intend to conduct business. Further, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights varies among jurisdictions and is unclear in some jurisdictions. Domain names similar to ours have already been registered in the United States and elsewhere, and we may be unable to prevent third parties from acquiring and using domain names that infringe, are similar to, or otherwise decrease the value of, our brand or our trademarks. Protecting and enforcing our rights in our domain names and determining the rights of others may require litigation, which could result in substantial costs, divert management attention, and not be decided favorably to us.

Our use of “open source” software could negatively affect our ability to sell our products and subject us to possible litigation.

A portion of the technologies we use incorporates “open source” software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our products and services that incorporate the open source software for no cost, that we make publicly available source code for modifications or derivative

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works we create based upon, incorporating, or using the open source software, or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose or provide at no cost any of our source code that incorporates or is a modification of such licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages and enjoined from the sale of our products and services that contained the open source software. Any of the foregoing could disrupt the distribution and sale of our products and services and harm our business.

We may engage in merger and acquisition activities, which could require significant management attention, disrupt our business, dilute stockholder value, and adversely affect our operating results.

As part of our business strategy, we may make investments in other companies, products, or technologies. We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by users or investors. In addition, if we fail to successfully integrate such acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and operating results of the combined company could be adversely affected.

Acquisitions may disrupt our ongoing operations, divert management from their primary responsibilities, subject us to additional liabilities, increase our expenses, and adversely impact our business, financial condition, operating results, and cash flows. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt, or issue equity securities to pay for any such acquisition, each of which could affect our financial condition or the value of our capital stock and could result in dilution to our stockholders. If we incur more debt it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to manage our operations. Additionally, we may receive indications of interest from other parties interested in acquiring some or all of our business. The time required to evaluate such indications of interest could require significant attention from management, disrupt the ordinary functioning of our business, and adversely affect our operating results.

The Aria Wi-Fi connected scale is subject to FDA regulation, and sales of this product or future regulated products could be adversely affected if we fail to comply with the applicable requirements.

The Aria scale is regulated as a medical device by the FDA and corresponding state regulatory agencies, and we may have future products that are regulated as medical devices by the FDA. The medical device industry in the United States is regulated by governmental authorities, principally the FDA and corresponding state regulatory agencies. Before we can market or sell a new regulated product or make a significant modification to an existing medical device in the United States, we must obtain regulatory clearance or approval from the FDA, unless an exemption from pre-market review applies. We received a pre-market clearance for the Aria scale in June 2014. The process of obtaining regulatory clearances or approvals to market a medical device can be costly and time consuming, and we may not be able to obtain these clearances or approvals on a timely basis, or at all, for future products. Any delay in, or failure to receive or maintain, clearance or approval for any medical device products under development could prevent us from generating revenue from these products. Medical devices, including the Aria scale, are also subject to numerous ongoing compliance requirements under the regulations of the FDA and corresponding state regulatory agencies, which can be costly and time consuming. For example, under FDA regulations medical device manufacturers are required to, among other things, (i) establish a quality system to help ensure that their products consistently meet applicable requirements and specifications, (ii) establish and maintain procedures for receiving, reviewing, and evaluating complaints, (iii) establish and maintain a corrective and preventive action procedure, (iv) report certain device-related adverse events and product problems to the FDA, and (v) report to the FDA the removal or correction of a distributed product. If we experience any product problems requiring reporting to the FDA or if we otherwise fail to comply with applicable FDA regulations or the regulations of corresponding state regulatory agencies, with respect to the Aria scale or future regulated products, we could jeopardize our ability to sell our products and could be subject to enforcement actions such as fines, civil penalties, injunctions, recalls of products, delays in the introduction of products into the market, and refusal of the FDA or other regulators to grant future clearances or approvals, which could harm our reputation, business, operating results, and financial condition.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the applicable listing standards of the New York Stock Exchange. We expect that the

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requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming, and costly, and place significant strain on our personnel, systems, and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We will be required to make a formal assessment and provide an annual management report on the effectiveness of our internal control over financial reporting beginning with our annual report for the fiscal year ended December 31, 2016. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the New York Stock Exchange.

Pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act, we will be required to evaluate and determine the effectiveness, provide a management report and be subject to attestation by our independent registered public accounting firm of our internal control over financial reporting, beginning with our annual report for the fiscal year ending December 31, 2016. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed, or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results and could cause a decline in the price of our Class A common stock.

Our management team has limited experience managing a public company.

Most members of our management team have limited experience managing a publicly-traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies. We are subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These obligations and constituents require significant attention from our senior management and divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and operating results.

Our business is subject to the risk of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by manmade problems such as terrorism.

Our business is vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins, and similar events. The third-party systems and operations and contract manufacturers we rely on, such as the data centers we lease, are subject to similar risks. For example, a significant natural disaster, such as an earthquake, fire, or flood, could have an adverse effect on our business, operating results, and financial condition, and our insurance coverage may be insufficient to compensate us for losses that may occur. Our corporate offices and one of our data center facilities are located in California, a state that frequently experiences earthquakes. In addition, the facilities at which our contract manufacturers manufacture our products are located in parts of Asia that frequently endure typhoons and earthquakes. Acts of terrorism, which may be targeted at metropolitan areas that have higher population density than rural areas, could also cause disruptions in our or our suppliers', contract manufacturers', and logistics providers' businesses or the economy as a whole. We may not have sufficient protection or recovery plans in some circumstances, such as natural disasters affecting California or other locations where we have data centers or store significant inventory of our products. As we rely heavily on our data center facilities, computer and communications systems, and the Internet to conduct our business and provide high-quality customer

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service, these disruptions could negatively impact our ability to run our business and either directly or indirectly disrupt suppliers' businesses, which could have an adverse effect on our business, operating results, and financial condition.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our condensed consolidated financial statements include those related to revenue recognition, inventories, product warranty reserves, the Fitbit Force recall, accounting for derivative financial instruments, business combinations, accounting for income taxes, and stock-based compensation expense. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our Class A common stock.

Our revolving credit facility provides our lenders with first-priority liens against substantially all of our assets, excluding our intellectual property, and contains financial covenants and other restrictions on our actions, which could limit our operational flexibility and otherwise adversely affect our financial condition.

In December 2015, we amended and restated our existing revolving credit facility and revolving credit and guarantee agreement into one senior credit facility. Our credit agreement restricts our ability to, among other things:

- use our accounts receivable, inventory, trademarks, and most of our other assets as security in other borrowings or transactions;
- incur additional indebtedness;
- sell certain assets;
- guarantee certain obligations of third parties;
- declare dividends or make certain distributions; and
- undergo a merger or consolidation or other transactions.

Our credit agreement also prohibits us from exceeding a consolidated fixed charge coverage ratio and require us to maintain a minimum liquidity reserve. Our ability to comply with these and other covenants is dependent upon a number of factors, some of which are beyond our control.

Our failure to comply with the covenants or payment requirements, or the occurrence of other events specified in our credit agreement, could result in an event of default under the credit agreement, which would give our lenders the right to terminate their commitments to provide additional loans under the credit agreement and to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, we have granted our lenders first-priority liens against all of our assets, excluding our intellectual property, as collateral. Failure to comply with the covenants or other restrictions in the credit agreement could result in a default. If the debt under our credit agreement was to be accelerated, we may not have sufficient cash on hand or be able to sell sufficient collateral to repay it, which would have an immediate adverse effect on our business and operating results. This could potentially cause us to cease operations and result in a complete loss of your investment in our Class A common stock.

We are exposed to fluctuations in the market values of our investments.

Credit ratings and pricing of our investments can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk, changes in interest rates, or other factors. As a result, the value and liquidity of our cash, cash equivalents, and marketable securities may fluctuate substantially. Therefore, although we have not realized any significant losses on its cash, cash equivalents, and marketable securities, future fluctuations in their value could result in a significant realized loss, which could materially adversely affect our financial condition and operating results.

Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our products.

We are subject to requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which will require us to conduct due diligence on and disclose whether or not our products contain conflict minerals. The implementation of

these requirements could adversely affect the sourcing, availability, and pricing of the materials used in the manufacture of components used in our products. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to conducting diligence procedures to determine the sources of minerals that may be used or necessary to the production of our products and, if applicable, potential changes to products, processes, or sources of supply as a consequence of such due diligence activities. It is also possible that we may face reputational harm if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to alter our products, processes, or sources of supply to avoid such materials.

Risks Related to Ownership of Our Class A Common Stock

The market price of our Class A common stock has been and will likely continue to be volatile, and you could lose all or part of your investment.

The market price of our Class A common stock has been, and will likely continue to be, volatile. Since shares of our Class A common stock were sold in our initial public offering in June 2015 at a price of \$20.00 per share, our stock price has ranged from \$11.91 to \$51.90 through April 30, 2016. In addition, the trading prices of the securities of technology companies in general have been highly volatile.

The market price of our Class A common stock may continue to fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- overall performance of the equity markets;
- actual or anticipated fluctuations in our revenue and other operating results;
- changes in the financial projections we may provide to the public or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- recruitment or departure of key personnel;
- the economy as a whole and market conditions in our industry;
- negative publicity related to problems in our manufacturing or the real or perceived quality of our products, as well as the failure to timely launch new products that gain market acceptance;
- rumors and market speculation involving us or other companies in our industry;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- lawsuits threatened or filed against us;
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events; and
- sales of shares of our Class A common stock by us or our stockholders.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. We are currently subject to securities litigation, which are described in Note 6, "Commitments and Contingencies" in the notes to our condensed consolidated financial statements. This or any future securities litigation could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

Sales of substantial amounts of our Class A common stock in the public markets, or the perception that they might occur, could cause the market price of our Class A common stock to decline.

Sales of a substantial number of shares of our Class A common stock into the public market, particularly sales by our directors, executive officers, and principal stockholders, or the perception that these sales might occur, could cause the market price of our Class A common stock to decline.

As of April 2, 2016, there were 217.5 million shares of Class A and Class B common stock outstanding, and all shares of our common stock are available for sale in the public market, subject in certain cases to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, various vesting agreements, as well as our insider trading policy.

In addition, as of April 2, 2016, we had options outstanding that, if fully exercised, would result in the issuance of 1.3 million shares of Class A common stock and 40.9 million shares of Class B common stock (which shares of Class B common stock generally convert to Class A common stock upon their sale or transfer). We also had RSUs outstanding as of April 2, 2016 that may be settled for 7.8 million shares of Class A common stock and 0.4 million shares of Class B common stock. All of the shares

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issuable upon the exercise of stock options or settlement of RSUs, and the shares reserved for future issuance under our equity incentive plans, are registered for public resale under the Securities Act. Accordingly, these shares may be freely sold in the public market upon issuance subject to applicable vesting requirements.

In addition, certain holders of our capital stock have rights, subject to some conditions, to require us to file registration statements for the public resale of their shares or to include such shares in registration statements that we may file for us or other stockholders.

The dual class structure of our common stock has the effect of concentrating voting control with holders of our Class B common stock, including our directors, executive officers, and significant stockholders. This will limit or preclude your ability to influence corporate matters, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval.

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. As of April 2, 2016, our directors, executive officers, and holders of more than 5% of our common stock, and their respective affiliates, held a substantial majority of the voting power of our capital stock. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will control a majority of the combined voting power of our common stock and therefore are able to control all matters submitted to our stockholders for approval until the earlier of June 17, 2027 or the date the holders of a majority of our Class B common stock choose to convert their shares. This concentrated control will limit or preclude your ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our Class A common stock and trading volume could decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If industry analysts cease coverage of us, the trading price for our common stock would be negatively affected. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our Class A common stock price and trading volume to decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments. In addition, our credit facility contains restrictions on our ability to pay dividends.

Provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management, limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees, and limit the market price of our common stock.

Provisions in our restated certificate of incorporation and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our restated certificate of incorporation and restated bylaws include provisions that:

- provide that our board of directors will be classified into three classes of directors with staggered three-year terms at such time as the outstanding shares of our Class B common stock represent less than a majority of the combined voting power of our common stock;
- permit the board of directors to establish the number of directors and fill any vacancies and newly-created directorships;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;

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- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- provide that only the chairman of our board of directors, our chief executive officer, or a majority of our board of directors will be authorized to call a special meeting of stockholders;
- provide for a dual class common stock structure in which holders of our Class B common stock have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the outstanding shares of our Class A and Class B common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, our restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for: any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our restated certificate of incorporation, or our restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits with respect to such claims. Alternatively, if a court were to find the choice of forum provision contained in our restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results, and financial condition.

Moreover, Section 203 of the Delaware General Corporation Law may discourage, delay, or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock.

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

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds

On June 17, 2015, the SEC declared our registration statement on Form S-1 (File No. 333-203941) for our initial public offering effective. On November 12, 2015, the SEC declared our registration statement on Form S-1 (File No. 333-207753) for our follow-on offering effective.

There has been no material change in the planned use of proceeds from our initial public offering or our follow-on offering as described in our final prospectuses filed with the SEC on June 18, 2015 and November 13, 2015, respectively, pursuant to Rule 424(b)(4).

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Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed
		Form	File No.	Exhibit	Filing Date	Herewith
10.1*	Fitbit, Inc. Bonus Plan.	8-K	001-37444	10.1	3/29/2016	
10.2*	Form of Notice of Stock Option Grant and Stock Option Agreement under the 2015 Equity Incentive Plan.	8-K	001-37444	10.1	2/9/2016	
10.3*	Global Notice of Stock Option Grant and Global Stock Option Agreement under the 2015 Equity Incentive Plan.					X
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.					X
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.					X
32.1#	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

* Indicates a management contract or compensatory plan.

These certifications are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

FITBIT, INC.

Date: May 6, 2016

/s/ WILLIAM ZERELLA

William Zerella

Chief Financial Officer

(Principal Financial and Accounting Officer)

GLOBAL STOCK OPTION AGREEMENT

FITBIT, INC. 2015 EQUITY INCENTIVE PLAN

You have been granted an Option by Fitbit, Inc. (the “*Company*”) under the 2015 Equity Incentive Plan (the “*Plan*”) to purchase Shares (the “*Option*”), subject to the terms, restrictions and conditions of the Plan, the Global Notice of Stock Option Grant (the “*Notice of Grant*”) and this Global Stock Option Agreement, including any special terms and conditions for your country set forth in the appendix attached hereto (the “*Appendix*”) (collectively, the “*Agreement*”).

1. Grant of Option. You have been granted the Option for the number of Shares set forth in the Notice of Grant at the Exercise Price per Share set forth in the Notice of Grant. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option (“*ISO*”), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an ISO, to the extent that it exceeds the \$100,000 limit under Code Section 422(d), it shall be treated as a Nonqualified Stock Option (“*NSO*”).

2. Termination.

(a) **General Rule.** If your Service terminates for any reason except death or Disability, and other than for Cause, then this Option will expire at the close of business at Company headquarters on the date three months after your termination of Service (subject to the expiration detailed in Section 6). If your Service is terminated for Cause, this Option will expire upon the date of such termination.

You acknowledge and agree that the vesting schedule set forth in the Notice of Grant may change prospectively in the event that your service status changes between full and part-time status in accordance with Company policies relating to work schedules and vesting of awards. You acknowledge that the vesting of the Shares pursuant to this Agreement is earned only by continuing Service.

(b) **Death; Disability.** If you die before your Service terminates (or you die within three months of your termination of Service other than for Cause), then this Option will expire at the close of business at Company headquarters on the date 12 months after the date of death (subject to the expiration detailed in Section 6). If your Service terminates because of your Disability, then this Option will expire at the close of business at Company headquarters on the date 12 months after your termination date (subject to the expiration detailed in Section 6).

(c) **Termination Date.** For purposes of this Option, your Service will be considered terminated as of the date you are no longer actively providing services to the Company or a Parent, Subsidiary or Affiliate (regardless of the reason for such termination and whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or consulting agreement, if any), and your period of Service will not include any contractual notice period or any period of “garden leave” or similar period mandated under labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or consulting agreement, if any. The Committee shall have the exclusive discretion to determine when you are no longer actively providing services for purposes of this Option (including whether you may still be considered to be providing services while on a leave of absence).

(d) No Notice. You are responsible for keeping track of these exercise periods following your termination of Service for any reason. The Company will not provide further notice of such periods. In no event shall this Option be exercised later than the Expiration Date set forth in the Notice of Grant.

3. Exercise of Option

(a) Right to Exercise. This Option is exercisable during its term in accordance with the vesting schedule set forth in the Notice of Grant and the applicable provisions of the Plan and this Agreement. In the event of your death, Disability, or other cessation of Service, the exercisability of the Option is governed by the applicable provisions of the Plan, the Notice of Grant and this Agreement. This Option may not be exercised for a fraction of a Share.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice in a form specified by the Company (the “*Exercise Notice*”), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the “*Exercised Shares*”), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be delivered in person, by mail, via electronic mail or facsimile or by other authorized method to the Secretary of the Company or other person designated by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of a fully executed Exercise Notice accompanied by the aggregate Exercise Price and any applicable withholding of Tax-Related Items as detailed in Section 8 below.

(c) Exercise by Another. If another person wants to exercise this Option after it has been transferred to him or her in compliance with this Agreement, that person must prove to the Company’s satisfaction that he or she is entitled to exercise this Option. That person must also complete the proper Exercise Notice form (as described above) and pay the Exercise Price (as described below) and any applicable withholding of Tax-Related Items as described below.

4. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at your election:

(a) your personal check, wire transfer, or a cashier’s check;

(b) for U.S. taxpayers only: certificates for shares of Company stock that you own, along with any forms needed to effect a transfer of those shares to the Company; the value of the shares, determined as of the effective date of the Option exercise, will be applied to the Exercise Price. Instead of surrendering shares of Company stock, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the Exercised Shares issued to you. However, you may not surrender, or attest to the ownership of, shares of Company stock in payment of the Exercise Price of your Option if your action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to this Option for financial reporting purposes;

(c) cashless exercise through irrevocable directions to a securities broker approved by the Company to sell all or part of the Exercised Shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the Exercise Price and any withholding of Tax-Related Items. The balance of the sale proceeds, if any, will be delivered to you. The directions must be given by signing a special notice of exercise form provided by the Company; or

(d) other method authorized by the Company.

5. Non-Transferability of Option. In general, except as provided below, only you may exercise this Option prior to your death. You may not transfer or assign this Option, except as provided

below. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid.

However, if you are a U.S. taxpayer, you may dispose of this Option in your will or in a beneficiary designation. If you are a U.S. taxpayer and this Option is designated as a NSO in the Notice of Grant, then the Committee may, in its sole discretion, allow you to transfer this Option as a gift to one or more family members. For purposes of this Agreement, “family member” means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law (including adoptive relationships), any individual sharing your household (other than a tenant or employee), a trust in which one or more of these individuals have more than 50% of the beneficial interest, a foundation in which you or one or more of these persons control the management of assets, and any entity in which you or one or more of these persons own more than 50% of the voting interest. In addition, if you are a U.S. taxpayer and this Option is designated as a NSO in the Notice of Grant, then the Committee may, in its sole discretion, allow you to transfer this Option to your spouse or former spouse pursuant to a domestic relations order in settlement of marital property rights. The Committee will allow you to transfer this Option only if both you and the transferee(s) execute the forms prescribed by the Committee, which include the consent of the transferee(s) to be bound by this Agreement.

This Option may not be transferred in any manner other than by will or by the laws of descent or distribution or court order and may be exercised during the lifetime of you only by you, your guardian, or legal representative, as permitted in the Plan and applicable local laws. The terms of the Plan and this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of you.

6. Term of Option. This Option shall in any event expire on the expiration date set forth in the Notice of Grant, which date is 10 years after the grant date (five years after the grant date if this Option is designated as an ISO in the Notice of Grant and Section 5.3 of the Plan applies).

7. Tax Consequences. You should consult a tax adviser for tax consequences relating to this Option in the jurisdiction in which you are subject to tax. **YOU SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.**

(a) **Exercising the Option.** You will not be allowed to exercise this Option unless you make arrangements acceptable to the Company to pay any withholding of Tax-Related Items.

(b) **Notice of Disqualifying Disposition of ISO Shares.** If you sell or otherwise dispose of any of the Shares acquired pursuant to an ISO on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, you shall immediately notify the Company in writing of such disposition. You agree that you may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the current compensation paid to you.

8. Responsibility for Taxes. Regardless of any action the Company or, if different, your actual employer (the “**Employer**”) takes with respect to any or all income tax, social insurance contributions, payroll tax, fringe benefits tax, payment on account or other tax-related withholding (“**Tax-Related Items**”), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Option, including the grant, vesting or exercise of this Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to structure the terms of the grant or any aspect of this Option to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. You acknowledge that if you are subject to Tax-Related Items in more than one jurisdiction, the Company and/or the Employer may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to exercise of the Option, you shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Item withholding and payment on account obligations of the Company and/or the Employer. In this regard, you authorize the Company and/or the Employer, and their respective agents, at their discretion, to withhold all applicable Tax-Related Items legally payable by you from your wages or other cash compensation paid to you by the Company and/or the Employer. With the Company's consent, these arrangements may also include, if permissible under local law, (a) withholding Shares that otherwise would be issued to you when you exercise this Option, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum statutory withholding amount, (b) having the Company withhold taxes from the proceeds of the sale of the Shares, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf and pursuant to this authorization), (c) your payment of a cash amount, or (d) any other arrangement approved by the Company; all under such rules as may be established by the Committee and in compliance with the Company's Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable; provided, however, that if you are a Section 16 officer of the Company under the Exchange Act, then the Committee (as constituted in accordance with Rule 16b-3 under the Exchange Act) shall establish the method of withholding from alternatives (a)-(d) above, and the Committee shall establish the method prior to the taxable or withholding event. The Fair Market Value of these Shares, determined as of the effective date of the Option exercise, will be applied as a credit against the Tax-Related Items.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash and will have no entitlement to the Shares equivalent. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested RSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

Finally, you agree to pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your purchase of Shares that cannot be satisfied by the means previously described. You acknowledge that the Company has no obligation to deliver Shares to you until you have satisfied the obligations in connection with the Tax-Related Items as described in this Section.

9. Nature of Grant. In accepting this Option, you acknowledge, understand and agree that:

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, suspended or terminated by the Company at any time, to the extent permitted by the Plan;
- (b) the grant of this Option is voluntary and occasional and does not create any contractual or other right to receive future grants of stock options, or benefits in lieu of stock options, even if stock options have been granted in the past;
- (c) all decisions with respect to future stock options or other grants, if any, will be at the sole discretion of the Company;
- (d) you are voluntarily participating in the Plan;
- (e) this Option and any Shares acquired under the Plan, and the income and value of same, are not intended to replace any pension rights or compensation;
- (f) this Option and any Shares acquired under the Plan, and the income and value of same, are not part of normal or expected compensation for purpose of calculating any severance, resignation,

termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or payments or welfare benefits or similar payments;

(g) unless otherwise agreed with the Company, this Option and any Shares acquired under the Plan, and the income and value of same, are not granted as consideration for, or in connection with, any Service you may provide as a director of any Parent, Subsidiary or Affiliate;

(h) the future value of the Shares underlying this Option is unknown, indeterminable, and cannot be predicted with certainty;

(i) if the underlying Shares do not increase in value, this Option will have no value;

(j) if you exercise this Option and acquire Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price;

(k) no claim or entitlement to compensation or damages shall arise from forfeiture of this Option resulting from the termination of your Service (for any reason whatsoever, whether or not later found to be invalid or in breach of labor laws in the jurisdiction where you are employed or engaged or the terms of your employment or service agreement, if any), and in consideration of the grant of this Option to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, the Employer or any Parent, Subsidiary or Affiliate, waive your ability, if any, to bring any such claim, and release the Company, the Employer or any Parent, Subsidiary or Affiliate from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, you shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claim; and

(l) if you are providing Service outside the United States, neither the Employer, the Company nor any Parent, Subsidiary or Affiliate shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of this Option or of any amounts due to you pursuant to the exercise of this Option or the subsequent sale of any Shares acquired upon exercise.

10. Data Privacy . *You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Agreement and any other Option grant materials by and among, as applicable, the Employer, the Company and any Parent, Subsidiary or Affiliate for the exclusive purpose of implementing, administering and managing your participation in the Plan.*

You understand that the Company and the Employer may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares or directorships held in the Company, details of all stock options or any other entitlement to shares awarded, canceled, exercised, vested, unvested or outstanding in your favor (“ Data ”), for the exclusive purpose of implementing, administering and managing the Plan.

You understand that Data will be transferred to third parties in connection with the implementation, administration and management of the Plan. You understand that the recipients of Data may be located in the United States or elsewhere, and that the recipient’s country (e.g. , the United States) may have different data privacy laws and protections than your country. You understand that if you reside outside the United States, he or she may request a list with the names and addresses of any potential recipients of Data by

contacting your local human resources representative. You authorize the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understands that if you reside outside the United States, you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your Service status and career with the Employer will not be adversely affected; the only consequence of refusing or withdrawing your consent is that Company would not be able to grant you stock options or other equity awards or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

11. Acknowledgement. The Company and you agree that this Option is granted under and governed by the Notice of Grant, this Agreement and the provisions of the Plan (incorporated herein by reference). You: (i) acknowledge receipt of a copy of the Plan prospectus, (ii) represent that you have carefully read and are familiar with the provisions in the grant documents, and (iii) hereby accept this Option subject to all of the terms and conditions set forth in this Agreement and those set forth in the Plan and the Notice of Grant. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions relating to the Plan, the Notice of Grant and this Agreement.

12. Consent to Electronic Delivery and Acceptance of All Plan Documents and Disclosures. By your acceptance of this Option, you consent to the electronic delivery of the Notice of Grant, this Agreement, account statements, Plan prospectuses required by the SEC, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its stockholders (including, without limitation, annual reports and proxy statements) or other communications or information related to this Option. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion. You acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost if you contact the Company by telephone, through a postal service or electronic mail at stockadmin@fitbit.com. You further acknowledge that you will be provided with a paper copy of any documents delivered electronically if electronic delivery fails; similarly, you understand that you must provide on request to the Company or any designated third party a paper copy of any documents delivered electronically if electronic delivery fails. You agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. Also, you understand that your consent may be revoked or changed, including any change in the electronic mail address to which documents are delivered (if you have provided an electronic mail address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or electronic mail at stockadmin@fitbit.com. Finally, you understand that you are not required to consent to electronic delivery.

13. Compliance with Laws and Regulations. The exercise of this Option will be subject to and conditioned upon compliance by the Company and you with all applicable state, federal and foreign laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer, which compliance the Company shall, in its absolute discretion, deem necessary or advisable. You understand that the Company is under no obligation to register or qualify the Common Stock with any state, federal or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. Further, you agree that the Company shall have unilateral authority to amend the Plan and this Agreement without your consent to the extent necessary to comply with securities

or other laws applicable to issuance of Shares. Finally, the Shares issued pursuant to this Agreement shall be endorsed with appropriate legends, if any, determined by the Company.

14. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying Shares. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

15. Governing Law; Venue. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice of Grant and this Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California in San Francisco County or the federal courts of the United States for the Northern District of California and no other courts.

16. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in accordance with its terms.

17. No Rights as Employee, Director or Consultant. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent, Subsidiary or Affiliate of the Company, to terminate your Service, for any reason, with or without Cause.

18. Adjustment. In the event of a stock split, a stock dividend or a similar change in Company stock, the number of Shares covered by this Option and the Exercise Price per Share may be adjusted pursuant to the Plan.

19. Lock-Up Agreement. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, you hereby agree not to sell, make any short sale of, loan, grant any Option for the purchase of, or otherwise dispose of any securities of the Company however and whenever acquired (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the public offering; provided however that, if during the last seventeen (17) days of the restricted period the Company issues an earnings release or material news or a material event relating to the Company occurs, or prior to the expiration of the restricted period the Company announces that it will release earnings results during the sixteen (16)-day period beginning on the last day of the restricted period, then, upon the request of the managing underwriter, to the extent required by any FINRA rules, the restrictions imposed by this Section shall continue to apply until the end of the third trading day following the expiration of the fifteen (15)-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. In no event will the restricted period extend beyond two hundred sixteen (216) days after the effective date of the registration statement.

20. Award Subject to Company Clawback or Recoupment. To the extent permitted by applicable law, the Option shall be subject to clawback or recoupment pursuant to any clawback or recoupment policy adopted by the Board or required by law during the term of your employment or other Service that

is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of your Option (whether vested or unvested) and the recoupment of any gains realized with respect to your Option.

21. Entire Agreement; Enforcement of Rights. This Agreement, the Plan and the Notice of Grant constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning this Option are superseded. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing and signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

22. Insider Trading Restrictions/Market Abuse Laws. You acknowledge that you may be subject to insider trading restrictions and/or market abuse laws, which may affect your ability to acquire or sell the Shares or rights to Shares under the Plan during such times as you are considered to have “inside information” regarding the Company (as defined by the laws in your country). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. You acknowledge that it is your responsibility to comply with any applicable restrictions, and you are advised to speak to your personal advisor on this matter.

23. Language. If you have received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

24. Appendix. Notwithstanding any provisions in this Agreement, this Option shall be subject to any special terms and conditions set forth in any Appendix hereto for your country. Moreover, if you relocate to one of the countries included in the Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Agreement.

25. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on this Option and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

26. Waiver. You acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other Participant.

BY ACCEPTING THIS OPTION, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

**APPENDIX TO
GLOBAL STOCK OPTION AGREEMENT**

**FITBIT, INC. 2015
EQUITY INCENTIVE PLAN**

Capitalized terms, unless explicitly defined in this Appendix, shall have the meanings given to them in the Global Stock Option Agreement, the Notice of Grant or in the Plan.

Terms and Conditions

This Appendix includes special terms and conditions that govern this Option if you reside and/or work in one of the countries listed below. If you are a citizen or resident (or are considered as such for local law purposes) of a country other than the country in which you are currently residing and/or working, or if you transfer to another country after receiving this Option, the Company shall, in its discretion, determine to what extent the special terms and conditions contained herein shall be applicable to you.

Notifications

This Appendix also includes information regarding securities, exchange control, tax and certain other issues of which you should be aware with respect to your participation in the Plan. The information is based on the securities, exchange control, tax and other laws in effect in the respective countries as of May 2015. Such laws are often complex and change frequently. As a result, the Company strongly recommends that you not rely on the information contained herein as the only source of information relating to the consequences of your participation in the Plan because the information may be out of date at the time you exercise this Option or at the time you sell any Shares acquired under the Plan. In addition, the information is general in nature and may not apply to your particular situation, and the Company is not in a position to assure you of any particular result. Therefore, you are advised to seek appropriate professional advice as to how the relevant laws in your country may apply to your individual situation.

If you are a citizen or resident (or are considered as such for local tax purposes) of a country other than the country in which you are currently residing and/or working, or if you transfer to another country after the grant of this Option, the information contained herein may not be applicable to you in the same manner.

AUSTRALIA

Terms and Conditions

Breach of Law. Notwithstanding anything to the contrary in the Plan or the Option Agreement, you will not be entitled to, and shall not claim any benefit (including without limitation a legal right) under the Plan if the provision of such benefit would give rise to a breach of Part 2D.2 of the Corporations Act 2001 (Cth), any other provision of that Act, or any other applicable statute, rule or regulation which limits or restricts the giving of such benefits. Further, the Employer is under no obligation to seek or obtain the approval of its stockholders in a general meeting for the purpose of overcoming any such limitation or restriction.

Notifications

Securities Law Information. If you acquire Shares under the Plan and offer such Shares for sale to a person or entity resident in Australia, the offer may be subject to disclosure requirements under Australian law. You should obtain legal advice regarding the disclosure obligations prior to making any such offer.

Exchange Control Information. Exchange control reporting is required for cash transactions exceeding AUD10,000 and for international fund transfers. If an Australian bank is assisting with the transaction, the bank will file the report on your behalf.

BELARUS

Terms and Conditions

Exercise of Option. The following provision supplements Sections 3 and 4 of the Global Stock Option Agreement:

Unless otherwise determined by the Committee, to exercise this Option, you must pay the Exercise Price by a cashless sell-all exercise method using a licensed securities broker acceptable to the Company, such that all Exercised Shares will be sold immediately upon exercise (*i.e.* , a “same day sale”) and the proceeds of sale, less the Exercise Price, any Tax-Related Items withholding and broker’s fees and commissions, will be remitted to you. You shall not be permitted to hold Shares following the exercise of this Option. In the event that your Service terminates, the unvested portion of this Option will be forfeited and you must exercise the vested portion of this Option within such time set forth in the Notice of Grant and the Agreement.

Exchange Control Acknowledgement. You agree to comply with any exchange control requirements arising out of the exercise of this Option and the sale of Shares, including any requirement to obtain a permit from the National Bank of the Republic of Belarus (the “***National Bank***”) to exercise this Option. To obtain the permit, you may be required to submit certain documents to the National Bank, including: (i) an application in a prescribed form; (ii) a copy of a personal identification document; (iii) information on the Shares to be acquired (*e.g.* , type, number, par value, name of the issuer); and (iv) a copy of the Agreement.

Please note that exchange control regulations in Belarus are subject to change. You should consult with your personal legal advisor regarding any exchange control obligations that you may have prior to exercising this Option or receiving proceeds from the sale of Shares acquired under the Plan.

BRAZIL

Terms and Conditions

Compliance with Law. By accepting this Option, you acknowledge your agreement to comply with applicable Brazilian laws and to pay any and all applicable Tax-Related Items associated with this Option, the sale of Shares acquired under the Plan and the receipt of any dividends.

Notifications

Exchange Control Information. Brazilian residents are required to submit an annual declaration of assets and rights held outside of Brazil to the Central Bank of Brazil if the aggregate value of such assets and rights is equal to or greater than US\$100,000. Assets and rights that must be reported include Shares acquired under the Plan.

Tax on Financial Transaction (IOF). Payments to foreign countries (including the payment of the Exercise Price) and repatriation of funds into Brazil and the conversion of BRL to USD associated with such fund transfers may be subject to the Tax on Financial Transactions. It is your responsibility to comply with any applicable Tax on Financial Transactions arising from your participation in the Plan.

CANADA

Terms and Conditions

Method of Payment. The following provision supplements Section 4 of the Global Stock Option Agreement:

Due to regulatory considerations in Canada, you are prohibited from surrendering Shares that you already own or attesting to the ownership of Shares to pay the Exercise Price or any Tax-Related Items in connection with this Option.

Termination Date. The following provisions replace Section 2(c) of the Global Stock Option Agreement in its entirety:

For purposes of this Option, your Service will be considered terminated as of the date that is the earliest of (i) the date on which your Service is terminated, (ii) the date on which you receive notice of termination of your Service, and (iii) the date on which you are no longer actively providing Services to the Company or the Employer, regardless of any notice period or period of pay in lieu of such notice required under applicable employment law. The Committee shall have the exclusive discretion to determine when your active provision of services is terminated for purposes of this Option (including whether you may still be considered actively employed while on a leave of absence).

The following terms and conditions apply if you are a Quebec resident :

Language. The parties acknowledge that it is their express wish that the Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir expressément souhaité que la convention [“Agreement”], ainsi que tous les documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou lié, directement ou indirectement à la présente convention, soient rédigés en langue anglaise.

Data Privacy. You hereby authorize the Company and the Company’s representatives to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. You further authorize the Company and any Subsidiary or Affiliate and the Committee to disclose and discuss the Plan with their advisors and to record all relevant information and keep such information in your employee file.

Notifications

Foreign Asset/Account Reporting Information. Canadian residents are required to report to the tax authorities any foreign property held outside of Canada (including this Option, Shares) on form T1135 (Foreign Income Verification Statement) if the total cost of such foreign property exceeds C\$100,000 at any time during the calendar year. The unvested portion of this Option also must be reported (generally at nil cost) on Form 1135 if the C\$100,000 threshold is exceeded due to other foreign property you hold. The Form T1135 must be filed at the same time you file your annual tax return. You should consult your personal legal advisor to ensure compliance with applicable reporting obligations.

CHINA

Terms and Conditions

The following terms and conditions apply to you only if you are subject to the exchange control restrictions and regulations in China, including the requirements imposed by the State Administration of Foreign Exchange (“SAFE”), as determined by the Company in its sole discretion.

Exercise of Option. The following provisions supplement Section 3 of the Global Stock Option Agreement:

Notwithstanding any provision of the Plan, the Agreement and the Notice of Grant, this Option shall not vest nor be exercisable until all necessary exchange control and other approvals from the SAFE or its local counterpart have been received by the Company or its Chinese Subsidiary under applicable exchange control rules with respect to the Plan and the awards thereunder.

Cashless Exercise Restriction. The following provisions supplement Section 4 of the Global Stock Option Agreement:

Notwithstanding anything to the contrary in the Agreement, due to legal restrictions in China, you will be required to pay the Exercise Price by a cashless sell-call exercise through a licensed securities broker acceptable to the Company, such that all Shares subject to this Option will be sold immediately upon exercise (*i.e.* , a “same day sale”) and the proceeds of sale, less the Exercise Price, any Tax-Related Items and broker’s fees or commissions, will be remitted to you in accordance with any applicable exchange control laws and regulations including but not limited to the restrictions set forth in this Appendix for China below under “Exchange Control Requirements.” The Company reserves the right to provide you with additional methods of exercise depending on the development of local law.

Exchange Control Requirements. By accepting this Option, you understand and agree that, pursuant to local exchange control requirements, you will be required to repatriate the cash proceeds from the immediate sale of the Shares issued upon the exercise of this Option to China. You further understand that, under local law, such repatriation of cash proceeds may need to be effectuated through a special exchange control account established by the Company and/or its Parent, Subsidiary or Affiliate, and you hereby consent and agree that any proceeds from the sale of any Shares you acquire may be transferred to such special account prior to being delivered to you. You further agree to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

The proceeds may be paid to you in U.S. dollars or in local currency, at the Company’s discretion. If the proceeds are paid in U.S. dollars, you understand and agree that you will be required to set up a U.S. dollar bank account in China (if you do not already have one) so that the proceeds may be deposited into this account. If the proceeds are paid in local currency, you further understand and agree that the Company or its Parent, Subsidiary or Affiliate is under no obligation to secure any particular exchange conversion rate and there may be delays in converting the cash proceeds to local currency due to exchange control restrictions.

You agree to bear any currency fluctuation risk between the time the cash proceeds are received and the time the cash proceeds are distributed to you through the special account described above.

You further agree to comply with any other requirements that may be imposed by the Company in the future to facilitate compliance with China exchange control requirements.

Notifications

Exchange Control Information. Chinese residents may be required to report to SAFE all details of their foreign financial assets and liabilities, as well as details of any economic transactions conducted with non-Chinese residents.

FRANCE

Terms and Conditions

Language Consent. By accepting this Option, you confirm having read and understood the documents relating to this Option (e.g. , the Plan and the Agreement and the Notice of Grant) which were provided in the English language. You accordingly accept the terms of those documents.

Consentement a la Langue. *En signant et renvoyant cet Accord, ou par acceptant autrement l'Accord, le Titulaire de l'Option confirme ainsi avoir lu et compris les documents relatifs à l'Option, (c'est-à-dire, Le Plan et cet Accord) qui ont été fournis en langue anglaise. Le Titulaire de l'Option accepte les termes de ces documents en connaissance de cause.*

Notifications

Foreign Asset/Account Reporting Information. French residents are required to report all foreign accounts (whether open, current or closed) to the French tax authorities when filing their annual tax returns. You should consult your personal advisor to ensure compliance with applicable reporting obligations.

GERMANY

Notifications

Exchange Control Information. Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank (Bundesbank). In case of payments in connection with the sale of Shares acquired under the Plan or the receipt of any cash dividends, the report must be filed electronically by the fifth day of the month following the month in which the payment was received. The form of report (*Allgemeine Meldeportal Statistik*) can be accessed via the Bundesbank's website (www.bundesbank.de) and is available in both German and English.

HONG KONG

Terms and Conditions

Sale of Shares. You agree that, in the event that any portion of this Option becomes vested and is exercisable prior to the six-month anniversary of the Date of Grant, you will not sell any Shares acquired upon exercise of this Option prior to the six-month anniversary of the Date of Grant. This Option and Shares purchased under the Plan are accepted as a personal investment.

Nature of Grant. The Company specifically intends that the Plan will not be an occupational retirement scheme for purposes of the Occupational Retirement Schemes Ordinance (“**ORSO**”). Notwithstanding the foregoing, if the Plan is deemed to constitute an occupational retirement scheme for the purposes of ORSO, this Option shall be void.

Notifications

Securities Law Information. *WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You should exercise caution in relation to the offer. Neither the grant of this Option nor the issuance of Shares upon exercise of this Option constitutes a public offering of securities under Hong Kong law and is available only to Employees, Non-Employee Directors and Consultants. The Agreement, including this Appendix, the Plan and other incidental communication materials distributed in connection with this Option (i) have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong and (ii) are intended only for the personal use of each eligible Employee, Non-Employee Director or Consultant and may not be distributed to any other person. If you have questions regarding the contents of the Agreement, including this Appendix or the Plan, you should obtain independent professional advice.*

INDIA

Terms and Conditions

Exercise of Option. The following provisions supplement Section 4 of the Global Stock Option Agreement:

Notwithstanding any provision of the Plan, the Agreement and the Notice of Grant, due to legal restrictions in India, you will not be permitted to pay the Exercise Price through any form of payment whereby some, but not all, of the Shares purchased upon exercise of this Option are sold to pay the Exercise Price. However, you will be permitted to pay the Exercise Price through any other form of payment set forth in the Agreement. Further, the Company reserves the right to allow additional forms of payment to you depending on the development of local law.

Notifications

Exchange Control Information. Indian residents are required to repatriate to India any proceeds from the sale of Shares acquired under the Plan within 90 days of receipt and any dividends within 180 days of payment. Indian residents subject to these repatriation obligations should obtain a foreign inward remittance certificate (“**FIRC**”) or other similar form from the bank where they deposit the funds and should maintain the FIRC or other form as evidence of the repatriation of funds in the event the Reserve Bank of India or their employer request proof of repatriation.

Foreign Asset/Account Reporting Information. Indian residents are required to declare any foreign bank accounts and any foreign financial assets (including Shares held outside India) on their annual tax returns. You are solely responsible for complying with this reporting obligation and should speak to your personal tax advisor to the extent you have questions in this regard.

IRELAND

Notifications

Director Notification Obligation. Directors, shadow directors and secretaries of the Company’s Irish Parents, Subsidiaries or Affiliates are subject to certain notification requirements under the Irish Companies Act. Directors, shadow directors and secretaries must notify the Irish Parents, Subsidiaries or Affiliates in

writing of their interest in the Company (e.g ., this Option, Shares, etc.) and the number and class of Shares or rights to which the interest relates within five business days of the acquisition or disposal of Shares or within five business days of becoming aware of the event giving rise to the notification. This disclosure requirement also applies to any rights or Shares acquired by the director's spouse or children (under the age of 18).

Starting June 1, 2015, new legislation is expected to take effect, and once in effect, the obligation described above will not apply if the director's interest in the Company represents one percent or less of the Company's share capital or does not carry the right to vote.

ITALY

Terms and Conditions

Exercise of Option. The following provisions supplement Sections 3 and 4 of the Global Stock Option Agreement:

Unless otherwise determined by the Committee, to exercise this Option, you must pay the Exercise Price by a cashless exercise method. Under the cashless exercise method, you must use a licensed securities broker acceptable to the Company, such that all Exercised Shares will be sold immediately upon exercise (i.e. , a "same day sale") and the proceeds of sale, less the Exercise Price, any Tax-Related Items and broker's fees and commissions, will be remitted to you. The Company reserves the right to make additional forms of exercise available to you should they be available under Italian securities law.

Data Privacy. The following provisions replace Section 10 of the Global Stock Option Agreement in its entirety:

You understand that the Employer, the Company, its Parent and any Subsidiaries or Affiliates may hold certain personal information about you, including your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares or directorships that you hold in the Company, details of all options or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in your favor (" Data "), for the exclusive purpose of implementing, administering and managing your participation in the Plan.

You also understand that providing the Company with Data is necessary for the performance of the Plan and that your refusal to provide Data would make it impossible for the Company to perform its contractual obligations and may affect your ability to participate in the Plan. The Controller of personal data processing is Fitbit, Inc., with its principal operating offices at 405 Howard Street, San Francisco, CA 94105 USA, and its representative in Italy is Fitbit Limited, Ufficio Di Rappresentanza, Via Paolo Barison, 42 Roma (RM) Cap 00142, Italy.

You understand that Data will not be publicized, but it may be transferred to banks, other financial institutions or brokers involved in the management and administration of the Plan. You further understand that the Company, its Parent and any Subsidiaries or Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of your participation in the Plan, and that the Company and/or its Parent, Subsidiaries or Affiliates may each further transfer Data to third parties assisting the Company in the implementation, administration and management of the Plan, including any requisite transfer to a broker or another third party with whom you may elect to deposit any Shares acquired under the Plan. Such recipients may receive, possess, use, retain and transfer Data in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan. You understand that these recipients may be located in the European Economic Area, or elsewhere, such as the United States. Should the Company exercise its discretion in suspending all necessary legal obligations

connected with the management and administration of the Plan, you understand that the Company will delete Data as soon as it has accomplished all the necessary legal obligations connected with the management and administration of the Plan.

You understand that Data processing related to the purposes specified above shall take place under automated or non-automated conditions, anonymously when possible, that comply with the purposes for which Data are collected and with confidentiality and security provisions as set forth by applicable laws and regulations, with specific reference to Legislative Decree no. 196/2003.

The processing activity, including communication, the transfer of Data abroad, including outside of the European Economic Area, as herein specified and pursuant to applicable laws and regulations, does not require your consent thereto as the processing is necessary to performance of contractual obligations related to implementation, administration and management of the Plan. You understand that, pursuant to Section 7 of the Legislative Decree no. 196/2003, you have the right to, including but not limited to, access, delete, update, ask for rectification of Data and cease, for legitimate reason, any processing of Data. Furthermore, you are aware that Data will not be used for direct marketing purposes. In addition, Data provided may be reviewed and questions or complaints can be addressed by contacting your local human resources department.

Plan Document Acknowledgment. By accepting this Option, you acknowledge that you have received a copy of the Plan, the Agreement, the Notice of Grant and this Appendix and reviewed the Plan, the Agreement, the Notice of Grant and this Appendix in their entirety and fully accept all provisions thereof. You further acknowledge that you have read and specifically and expressly approve the following provisions of the Agreement: (i) Responsibility for Taxes; (ii) Non-Transferability of Option; (iii) Language; (iv) Governing Law; Venue; (v) the Terms and Conditions in this Appendix, as well as the Data Privacy section included in this Appendix.

Notifications

Foreign Asset/Account Reporting Information. Italian residents who, at any time during the fiscal year, hold foreign financial assets (such as cash, Shares or this Option) which may generate income taxable in Italy are required to report such assets on their annual tax returns or on a special form if no tax return is due. The same reporting duties apply to Italian residents who are beneficial owners of the foreign financial assets pursuant to Italian money laundering provisions, even if they do not directly hold the foreign asset abroad. You should consult your personal legal advisor to ensure compliance with applicable reporting requirements.

JAPAN

Notifications

Exchange Control Information. If you acquire Shares valued at more than ¥100 million in a single transaction, you must file a Securities Acquisition Report with the Ministry of Finance (the “**MOF**”) through the Bank of Japan within 20 days of the acquisition.

In addition, if you pay more than ¥30 million in a single transaction for the purchase of Shares when you exercise this Option, you must file a Payment Report with the MOF through the Bank of Japan within 20 days of the date that the payment is made. The precise reporting requirements vary depending on whether or not the relevant payment is made through a bank in Japan. Please note that a Payment Report is required independently from a Securities Acquisition Report. Therefore, you must file both a Payment Report and a Securities Acquisition Report if the total amount that you pay in a single transaction for exercising this Option and purchasing Shares exceeds ¥100 million.

Foreign Asset/Account Reporting Information. You will be required to report details of any assets held outside of Japan as of December 31 (including the Shares acquired under the Plan), to the extent such assets

have a total net fair market value exceeding ¥50 million. Such report will be due by March 15 each year. You should consult with your personal tax advisor as to whether the reporting obligation applies to you and whether you will be required to report details of your outstanding Option, as well as the Shares, in the report.

KOREA

Notifications

Exchange Control Information. To remit funds out of Korea to exercise this Option by a cash-exercise method, you must obtain a confirmation of the remittance by a foreign exchange bank in Korea. This is an automatic procedure (*i.e.*, the bank does not need to approve the remittance and the process should not take more than a single day). You likely will need to present the bank processing the transaction supporting documentation evidencing the nature of the remittance.

If you realize US\$500,000 or more from the sale of Shares or the receipt of any dividends in a single transaction, Korean exchange control laws require you to repatriate the proceeds to Korea within 18 months of the sale or receipt of such proceeds.

Foreign Asset/Account Reporting Information. Korean residents must declare all foreign financial accounts (*i.e.* , non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authority and file a report with respect to such accounts if the value of such accounts exceeds KRW 1 billion (or an equivalent amount in foreign currency). You should consult with your personal tax advisor to determine your personal reporting obligations.

NORWAY

There are no country-specific provisions.

PHILIPPINES

Terms and Conditions

Securities Law Acknowledgment. You acknowledge that you are not permitted to sell Shares acquired under the Plan within the Philippines; any sale of Shares shall take place outside of the Philippines through a U.S. broker appointed by the Company (or such other broker to whom you may transfer the Shares), provided that such sale takes place through the facilities of the stock exchange on which the Common Stock is listed.

RUSSIA

Terms and Conditions

U.S. Transaction. You understand that the acceptance of this Option results in an agreement between you and the Company that is completed in the United States and that the Agreement is governed by the laws of the State of Delaware, without giving effect to the conflict of law principles thereof. Upon exercise of this Option, any Shares to be issued to you shall be held or delivered to you in the United States and in no event will such Shares be delivered to you in Russia. You acknowledge that you are not permitted to sell or otherwise transfer Shares directly to other individuals in Russia, nor are you permitted to bring any certificates representing the Shares into Russia (if such certificates are actually issued).

Exercise of Option. The following provisions supplement Section 4 of the Global Stock Option Agreement:

Depending on the development of local regulatory requirements, the Company reserves the right to restrict you to the cashless sell-all method of exercise, whereby all Exercised Shares will be sold immediately upon exercise and the sales proceeds, less the Exercise Price, any Tax-Related Items and broker's fees or commissions, will be remitted to you in accordance with any applicable laws and regulations. If the Company restricts you to the cashless-sell-all method of exercise, you will not be permitted to hold Shares after exercise.

Data Privacy. You hereby acknowledge that you have read and understood the terms regarding collection, processing and transfer of Data contained in Section 10 of the Agreement and, by participating in the Plan, you agree to such terms. In this regard, upon request of the Company or the Employer, you agree to provide an executed data privacy consent form to the Employer or the Company (or any other agreements or consents that may be required by the Employer or the Company) that the Company and/or the Employer may deem necessary to obtain under the data privacy laws in Russia, either now or in the future. You understand that you will not be able to participate in the Plan if you fail to execute any such consent or agreement.

Notifications

Securities Law Information. The Agreement, the Notice of Grant, the Plan and all other materials that you may receive regarding participation in the Plan do not constitute advertising or an offering of securities in Russia. Absent any requirement under local law, the issuance of securities pursuant to the Plan has not and will not be registered in Russia. Therefore, the securities described in any Plan-related documents may not be used for offering or public circulation in Russia.

Exchange Control Information. You may be subject to certain exchange control obligations under which any cash proceeds you receive related to the Shares (such as proceeds from the sale of the Shares, but not including dividends on Shares) must be repatriated to Russia within a reasonably short period after receipt. Such cash amounts may be required to be initially credited to you through a foreign currency account opened in your name at an authorized bank in Russia. After the funds are initially received in Russia, they may be able to be further remitted to a foreign bank subject to the following limitations: (i) the foreign account may be opened only for individuals; (ii) the foreign account may not be used for business activities; and (iii) the Russian tax authorities must be given notice about the opening/closing of each foreign account within one month of the account opening/closing. *You should contact your bank in Russia and consult with your personal legal advisor to confirm the application of the exchange control rules to this Option prior to exercising this Option. Significant penalties may apply in the case of non-compliance with the exchange control requirements and exchange control requirements are subject to change.*

Labor Law Information. If you continue to hold Shares acquired at exercise of this Option after an involuntary termination of your Service, you may not be eligible to receive unemployment benefits in Russia.

Anti-Corruption Law Information. Certain individuals who hold public office in Russia, as well as their spouses and dependent children, are prohibited from opening or maintaining foreign brokerage or bank accounts and holding any securities, whether acquired directly or indirectly in a foreign company (including Shares acquired under the Plan). You should consult with your personal legal advisor to determine whether this law applies to you.

SINGAPORE

Notifications

Securities Law Information. This Option is being granted pursuant to the "Qualifying Person" exemption under section 273(1)(f) of the Securities and Futures Act (Chapter 289, 2006 Ed.) ("**SFA**"). The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore. You should note that this Option is subject to section 257 of the SFA and you will not be able to make (i) any subsequent sale

of the Shares in Singapore or (ii) any offer of such subsequent sale of the Shares subject to the Option in Singapore, unless such sale or offer in is made pursuant to the exemptions under Part XIII Division 1 Subdivision (4) (other than section 280) of the SFA.

Chief Executive Officer and Director Notification Obligation. If you are a chief executive officer, director, associate director or shadow director¹ of a Singapore Subsidiary or Affiliate, you must notify the Singapore Subsidiary or Affiliate in writing of an interest (e.g. , this Option, Shares, etc.) in the Company or any Subsidiary or Affiliate within two business days of (i) acquiring or disposing of such interest, (ii) any change in a previously disclosed interest (e.g. , sale of Shares), or (iii) becoming a chief executive officer, director, associate director or shadow director.

SPAIN

Terms and Conditions

Nature of Grant. The following provisions supplement Section 9 of the Global Stock Option Agreement:

In accepting this Option, you consent to participation in the Plan and acknowledge that you have received a copy of the Plan.

Further, you understand that the Company has unilaterally, gratuitously and in its sole discretion decided to grant stock options under the Plan to individuals who provide Service to the Company or its Parents, Subsidiaries or Affiliates throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any award will not economically or otherwise bind the Company or any of its Parents, Subsidiaries or Affiliates on an ongoing basis, other than as provided in the Plan and Agreement. Consequently, you understand that this Option is granted on the assumption and condition that this Option or the Shares acquired upon settlement shall not become a part of any employment or consulting agreement (either with the Company or any Parent, Subsidiary or Affiliate) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, you understand that this award would not be made to you but for the assumptions and conditions referred to above; thus, you acknowledge and freely accept that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then the award of this Options shall be null and void.

You also understand and agree that, as a condition of the grant and vesting of this Option, upon the termination of your Service for any reason (including the reasons listed below), this Option will cease vesting immediately, in whole or in part, effective on the date of termination of your Service. This will be the case, for example, even in the event of a termination of your Service by reason of, but not limited to, resignation, retirement, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without cause, individual or collective dismissal on objective grounds, whether adjudged or recognized to be with or without cause, material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer and under Article 10.3 of the Royal Decree 1382/1985. You acknowledge that you have read and specifically accept the conditions referred to in the "Termination" and "Nature of Grant" sections of the Agreement.

¹ A shadow director is an individual who is not on the board of directors of the Singapore Subsidiary or Affiliate but who has sufficient control so that the board of directors of the Singapore Subsidiary or Affiliate acts in accordance with the directions or instructions of the individual.

Notifications

Securities Law Information. The grant of this Option and the Shares issued pursuant to the exercise of this Option are considered a private placement outside of the scope of Spanish laws on public offerings and issuances of securities.

Exchange Control Information. To participate in the Plan, you must comply with exchange control regulations in Spain. The purchase of Shares upon exercise of this Option and the sale of Shares must be declared for statistical purposes to the *Dirección General de Comercio e Inversiones* (the “*DGCI*”) of the Ministry of Industry, Tourism and Commerce. Because you will not purchase or sell the Shares through the use of a Spanish financial institution, you must make the declaration yourself by filing a D-6 form with the DGCI. Generally, the D-6 form must be filed each January while the Shares are owned or to report the sale of the Shares; however, if the value of the Shares acquired or the amount of the sale proceeds you realize from the sale of Shares exceeds €1,502,530, the declaration must be filed within one month of the acquisition or sale, as applicable.

Foreign Asset/Account Reporting Information. Spanish residents holding rights or assets (*e.g.* , Shares or cash held in a bank or brokerage account) outside of Spain with a value in excess of €50,000 per type of right or asset (*e.g.* , Shares, cash, etc.) as of December 31 each year are required to report information on such rights and assets on their tax returns for such year. After such rights and assets are initially reported, the reporting obligation will only apply for subsequent years if the value of any previously-reported rights or assets increases by more than €20,000. The reporting must be completed by March 31 following the end of the relevant year. It is your responsibility to comply with these reporting obligations, and you should consult with your personal tax and legal advisors in this regard.

In addition, Spanish residents are required to electronically declare to the Bank of Spain any securities accounts (including brokerage accounts held abroad), as well as the securities (including Shares acquired under the Plan) held in such accounts if the value of the transactions for all such accounts during the prior tax year or the balances in such accounts as of December 31 of the prior tax year exceeds €1,000,000.

SWEDEN

There are no country-specific provisions.

TAIWAN

Notifications

Securities Law Information. The offer of participation in the Plan is available only to those who provide Service. The offer of participation in the Plan is not a public offer of securities by a Taiwanese company.

Exchange Control Information. The acquisition or conversion of foreign currency and the remittance of such amounts (including proceeds from the sale of Shares) to Taiwan may trigger certain annual or periodic exchange control reporting. If the transaction amount is TWD500,000 or more in a single transaction, Taiwanese residents may be required to submit a Foreign Exchange Transaction Form and provide supporting documentation to the satisfaction of the remitting bank.

UNITED KINGDOM

Terms and Conditions

Responsibility for Taxes. The following provisions supplement Section 8 of the Global Stock Option Agreement:

You agree that if payment or withholding of income tax due is not made within 90 days of the end of the U.K. tax year in which the taxable event occurs or such other period specified in Section 222(1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003 (the “**Due Date**”), then the amount of any uncollected income tax shall constitute a loan owed by you to the Employer, effective on the Due Date. You agree that the loan will bear interest at the then-current Official Rate of Her Majesty’s Revenue & Customs (“**HMRC**”) and will be immediately due and repayable by you, and the Company and/or the Employer may recover it at any time thereafter by any of the means referred to in Section 8 of the Agreement. Notwithstanding the foregoing, if you are an executive officer or director of the Company (within the meaning of Section 13(k) of the Exchange Act), you shall not be eligible for a loan from the Company to cover the income tax due. In the event that you are an executive officer or director and income tax is not collected from or paid by you by the Due Date, the amount of any uncollected income tax may constitute a benefit to you on which additional income tax and National Insurance contributions (“**NICs**”) may be payable. You understand that you will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for reimbursing the Company and/or the Employer (as appropriate) for the value of employee NICs due on this additional benefit which the Company and/or the Employer may recover from you by any of the means set forth in Section 8 of the Agreement.

Joint Election. As a condition of your participation in the Plan, you agree to accept any liability for secondary Class 1 NICs which may be payable by the Company and/or the Employer in connection with this Option and any event giving rise to Tax-Related Items (the “**Employer’s NICs**”). Without limitation to the foregoing, you agree to enter into a joint election with the Company and/or the Employer (the “**Joint Election**”), the form of such Joint Election being formally approved by HMRC, and to execute any other consents or elections required to accomplish the transfer of the Employer’s NICs to you. You further agree to execute such other joint elections as may be required between you and any successor to the Company and/or the Employer. You further agree that the Company and/or the Employer may collect the Employer’s NICs from you by any of the means set forth in Section 8 of the Agreement.

If you do not enter into a Joint Election, if approval of the Joint Election has been withdrawn by HMRC, if the Joint Election is revoked by the Company or the Employer (as applicable), or if the Joint Election is jointly revoked by you and the Company or the Employer (as applicable), the Company, in its sole discretion and without any liability to the Company or the Employer, may choose not to issue or deliver any Shares or proceeds from the sale of Shares to you upon exercise of this Option.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, James Park, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fitbit, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2016

/s/ James Park

James Park
President, Chief Executive Officer, and Chairman
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, William Zerella, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fitbit, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2016

/s/ William Zerella

William Zerella
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, James Park, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, the Quarterly Report on Form 10-Q of Fitbit, Inc. for the fiscal quarter ended April 2, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Fitbit, Inc.

Date: May 6, 2016

By: /s/ James Park

James Park
President, Chief Executive Officer, and Chairman
(Principal Executive Officer)

I, William Zerella, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, the Quarterly Report on Form 10-Q of Fitbit, Inc. for the fiscal quarter ended April 2, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Fitbit, Inc.

Date: May 6, 2016

By: /s/ William Zerella

William Zerella
Chief Financial Officer
(Principal Financial and Accounting Officer)