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

FORM 10-K

(Mark one) ☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

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)*	**20-8920744** *(I.R.S. Employer Identification No.)*

405 Howard Street
San Francisco, California 94105
(Address of principal executive offices) (Zip Code)

(415) 513-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.0001	New York Stock Exchange LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☑

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing sale price of the registrant's Class A common stock on June 30, 2015, as reported on the New York Stock Exchange, was approximately $3.0 billion.

As of February 19, 2016, there were 137,971,036 shares of the registrant's Class A common stock outstanding and 78,035,345 shares of the registrant's Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2015.

Fitbit, Inc.
Form 10-K
For the Fiscal Year Ended December 31, 2015

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K include, but are not limited to, statements about:

- *competitors and competition in our markets;*
- *our expectation to derive the substantial majority of our revenue from sales of devices;*
- *releasing and shipping new products and services, and the timing thereof;*
- *trends in revenue, costs of revenue and gross margin;*
- *trends in our operating expenses, including personnel costs, research and development expense, sales and marketing expense and general and administrative expense;*
- *trends in our quarterly operating results and other operating metrics;*
- *the effect of seasonality on our results of operations;*
- *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;*
- *the impact of foreign currency exchange rates;*
- *legal proceedings and the impact of such proceedings;*
- *continued investments in research and development, sales and marketing and international expansion and the impact of those investments;*
- *expansion of our distribution channels; our reliance on third-party suppliers, contract manufacturers (particularly Flextronics) and logistics providers and our limited control over such parties;*
- *our ability to successfully build relationships with employers and wellness providers, enhance our corporate wellness offerings and our expectations around the growth of the corporate wellness market;*
- *our ability to expand our brand awareness;*
- *our ability to develop new products and services or improve our existing products and services;*
- *our business strategy to make investments in other companies, products and technologies;*
- *our belief that the active user and registered device user metrics are indicators of the potential size of our community;*
- *our ability to attract and retain users and increase the level of engagement of our users;*
- *growing our sales of subscription-based services* ;
- *our ability to attract and retain highly skilled employees; and*
- *general market, political, economic and business conditions* .

PART I

Item 1. Business

Our Mission

Fitbit helps people lead healthier, more active lives by empowering them with data, inspiration, and guidance to reach their goals.

Overview

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. In addition, we offer a Wi-Fi connected scale that records weight, body fat, and BMI. We dedicate significant resources to developing proprietary sensors, algorithms, and software to ensure that our products have highly accurate measurements, insightful analytics, compact sizes, durability, and long battery lives. 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. Our direct connection with our users enables us to provide personalized insights, premium services, and information about new products and services. Premium services include virtual coaching through customized fitness plans and interactive video-based exercise experiences on mobile devices and computers. In addition, we extend the value of our platform through our open API, which enables third-party developers to create health and fitness apps that interact with our platform. Through our open platform and our large community of users, we have established a growing ecosystem that includes thousands of third-party health and fitness apps that connect with our products and enhance the Fitbit experience.

Our platform enables all types of people to get fit their own way, whatever their interests and goals. Our users range from people interested in improving their health and fitness through everyday activities to endurance athletes seeking to maximize their performance. To address this range of needs, we design our devices, apps, and services to be easy to use so that they fit seamlessly into peoples' daily lives or activities. Our users can sync their Fitbit devices with, and view their dashboard on, their computers and over 200 mobile devices, including iOS, Android, and Windows Phone products. This broad compatibility, combined with our market-leading position, has enabled us to attract what we believe is the largest community of connected health and fitness device users. The size of our user community increases the likelihood that our users will be able to find and engage with friends and family, creating positive network effects that reinforce our growth. In addition, data from our large community enables us to enhance our product features, provide improved insights, and offer more valuable guidance for our users.

The Fitbit Platform

Our leading connected health and fitness platform is designed to enable our users to improve their health and fitness by:

- ***Tracking activities through our connected health and fitness devices.*** We empower users to live healthier, more active lifestyles by both tracking the information that matters most to them and providing them with real-time feedback. Our connected health and fitness devices span multiple styles, form factors, and price points, addressing the needs of everyone—from people simply looking to get fit by increasing their activity levels to endurance athletes seeking to maximize their performance. Our devices, which include wrist-based and clippable fitness trackers and our Wi-Fi connected scale, feature proprietary and advanced sensor technologies and algorithms, high accuracy of measures, and long battery lives. In addition, the ease of use and small, lightweight, and durable designs of our devices help them fit effortlessly into our users' lifestyles.

- ***Learning through our online dashboard and mobile apps.*** We offer our users a personalized online dashboard and mobile apps that sync automatically with, and display data from, our connected health and fitness devices. We provide our users with a wide range of information and analytics, such as charts and graphs of their progress and the ability to log caloric intake. Both our online dashboard and mobile apps are free and work with all of our connected health and fitness devices. Our internally-developed software is regularly updated and enhanced, increasing the utility of our health and fitness platform.

- ***Staying motivated through social features, notifications, challenges, and virtual badges.*** Our products help millions of users achieve their goals both individually and within the community that they choose. On an individual level, we motivate users by delivering real-time feedback, including notifications, leaderboard and challenge updates, and virtual badges. Our platform also offers users social features that allow them to receive and provide support and engage in friendly competition. Users can securely share some or all of their health and fitness information on an opt-in basis with friends, family, and other parties and compete against each other on key statistics through leaderboards and daily or multi-day fitness challenges. In addition, users can choose to share their data with thousands of third-party apps and through social networks on an opt-in basis. As users create more connections on our network, they often benefit from higher levels of fitness activity and overall value from our platform.

- ***Improving health and fitness through goal-setting, personalized insights, premium services, and virtual coaching.*** Our primary goal is to help our users improve their health and fitness. We believe our platform assists users in changing their daily behavior, such as eating healthier foods or going for a run or walking more to reach a goal or win a challenge. We empower our users to set their own health and fitness goals and track their progress towards these goals. We also offer premium services on a subscription basis that provide personalized insights and virtual coaching through customized fitness plans and interactive video-based exercise experiences on mobile devices and computers. Our premium services feature in-depth data analysis and personalized reports, as well as benchmarking against peers.

Our Competitive Strengths

We believe the following strengths will allow us to maintain and extend our leadership position:

- ***Leading market position and global brand.*** Our singular focus on building a connected health and fitness platform, coupled with our leading market share, has led to our brand becoming synonymous with the connected health and fitness category.

- ***Broad range of connected health and fitness devices.*** We believe everyone's approach to fitness is different, so we offer our users a range of connected health and fitness devices spanning multiple styles, form factors, and price points to allow people to find the devices that fit their lifestyles and goals. In addition to our wrist-based and clippable wearable health and fitness devices, we also offer a Wi-Fi connected scale that tracks weight, body fat, and BMI. We believe the breadth of our connected health and fitness devices provides us with a competitive advantage over our competitors, which often have a more limited line of products.

- ***Advanced, purpose-built hardware and software technologies.*** Our connected health and fitness devices leverage industry-standard technologies, such as Bluetooth low energy, as well as proprietary technologies, such as our PurePulse continuous heart rate tracking, and our algorithms that more accurately measure and analyze user health and fitness metrics. We devote significant resources to ensure that our devices effortlessly fit into our users' lifestyles. For example, we design our small, lightweight, durable, and fashionable products to be optimized for power efficiency, which enables automatic wireless data syncing without compromising battery life. We place a similarly strong emphasis on our online dashboard and mobile apps to provide users with visualization of their progress and personalized guidance. Our highly-scalable cloud infrastructure enables millions of users around the world to engage with our platform in real-time.

- ***Broad mobile compatibility and open API.*** Our broad mobile compatibility and open API enable a large and growing health and fitness ecosystem that provides additional value to our existing users and extends our reach to potential new users. Our users can sync their Fitbit devices with, and view their online dashboard on, their computers and over 200 mobile devices, including iOS, Android, and Windows Phone products. This broad compatibility, combined with our market-leading position, has enabled us to build what we believe is the largest community of connected health and fitness device users. Additionally, we enable seamless integration with thousands of apps across iOS, Android, and Windows Phone through our open API, which allows our users to share data with third-party apps on an opt-in basis.

- ***Broad and differentiated go-to-market strategy.*** We have developed a broad go-to-market strategy that reaches individuals regardless of where they shop. 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 believe the breadth and depth of our established selling channels and prominent presence in retail stores are unmatched in the connected health and fitness category and would be difficult for a competitor to replicate.

- ***Large and growing community and powerful network effects.*** We believe the size of our community of users makes it more likely that users can connect with friends and family and attracts many new users to our platform. Each of our users add value to our platform by making progress towards their goals and syncing their data with our platform, which we leverage to provide better insights for our users. As our community of users continues to grow, we will develop a deeper understanding of our users and expect to deliver additional value to them through more detailed insights and analysis. We believe the growth and scale of our user community allows users to become not only more engaged with personalized and relevant content, but also less likely to leave a community in which many of their friends and family are active members.

- ***Direct relationship and continuous communication with our users.*** The connectivity of our devices allows us to better understand our users' health and fitness goals. This connectivity also allows us to communicate the most relevant analysis, features, advice, and content to our users throughout the day with our online dashboard, mobile apps, emails, and notifications. We also utilize these communication channels to help our users become aware of our new products and services.

Our Users

We aim to empower all people to improve their health and fitness, whatever their lifestyle or goals. Our community of users generally falls into three fitness levels and we design and market our products to them accordingly:

Everyday users represent our largest group of users. These users are looking to incorporate more activity into their daily routines as the primary means to improve their overall fitness through everyday activities, such as walking more or taking the stairs instead of the elevator. They are most interested in receiving feedback on daily activity measures such as steps, distance, calories burned, and active minutes. We primarily market the Fitbit Zip, Fitbit One, Fitbit Flex, Fitbit Charge, and Fitbit Alta to Everyday users.

Active users exercise regularly to reach their fitness goals through activities such as running, using cardio equipment, and playing sports recreationally. As a result, these users are often interested in monitoring exercise intensity through heart rate tracking in addition to activity tracking. We primarily market the Fitbit Charge HR and Fitbit Blaze to Active users.

Performance users train regularly to improve their performance and achieve their personal bests. These users participate in endurance sports and fitness activities with higher intensity and longer duration, such as interval or distance running and cycling, and thrive on personal improvement and competition. Accordingly, these users are interested in GPS tracking of speed, distance, and exercise routes, in addition to heart rate and daily activity tracking. We primarily market the Fitbit Surge to Performance users.

What Our Connected Health and Fitness Devices Track

With each successive product offering, we have expanded the features and accuracy of our products and now track the following measures:

- ***Steps.*** The cornerstone of our initial product offering, our trackers use accelerometers and proprietary algorithms that count the number of steps taken throughout their day.
- ***Calories burned.*** Our users can estimate the amount of calories burned throughout the day based on several methods depending on the tracker. We believe our more advanced devices that use our PurePulse heart rate tracking technology provide a more accurate estimate of calorie burn than non-PurePulse based products.
- ***Distance traveled.*** Our users can track the distance they have traveled throughout the day as a function of the number of steps they have taken throughout the day or through built-in GPS, depending upon the tracker.
- ***Heart rate.*** On trackers that are outfitted with our proprietary PurePulse technology, our users are able to automatically and continuously track their heart rate during everyday activity and exercise. Our PurePulse technology uses wrist-based optical LEDs, which measures heart rate using light reflection. We believe our PurePulse technology makes heart rate relevant as a means to more accurately measure calorie burn, maintain intensity during exercise, and train more effectively by using heart rate zones. Additionally, our heart rate tracking technology can conveniently provide our users with their resting heart rate, which is a widely used indicator of cardiovascular fitness and conditioning.
- ***Floors climbed.*** Using a built-in altimeter sensor, our users are able to track flights of stairs climbed, which encourages users to take the stairs instead of using an escalator or elevator. Floors climbed are tracked by all trackers except Fitbit Zip and Fitbit Alta.
- ***Sleep duration and quality.*** Users can track their sleep duration and quality on all trackers, except Fitbit Zip, including restless and awake episodes throughout the night. Most trackers allow users to track this data automatically.
- ***Active minutes.*** Our trackers detect the number of minutes our users are more active.
- ***GPS-based tracking.*** Our Fitbit Surge allows our users to track their speed, distance, and exercise routes using the GPS capability integrated into the device during activities such as running, cycling, hiking, and walking. For those without Fitbit Surge, our mobile apps provide GPS tracking using the phone’s GPS capability. Fitbit Blaze allows users to connect to their smartphones’ GPS capabilities.
- ***SmartTrack.*** SmartTrack automatically recognizes continuous movement when users wear Fitbit Alta, Fitbit Charge HR, Fitbit Blaze, or Fitbit Surge. It identifies the type of activity and records it in the Fitbit app along with an exercise summary,

including duration, calories burned and heart rate stats. SmartTrack is capable of identifying a wide variety of activities, including elliptical, outdoor biking, running, walking, and general categories of aerobic workouts and sports.

- ***Weight, body fat, and BMI.*** Our Aria Wi-Fi connected scale allows users to track weight, BMI, lean mass, and body fat percentage separately and privately for up to eight users, helping individuals to track progress towards and achieve their body composition goals.
- ***Caloric intake.*** Through our mobile apps, we provide a database with more than 300,000 specific food items that can be searched and tracked. Users can log food consumption and set calorie budgets based on their caloric intake and daily activity to achieve a desired weight goal.

Our Devices

We believe everyone's approach to fitness is different, so we have created products with a wide variety of styles, sizes, features, and price points.

Fitbit Zip is our entry-level wireless activity tracker for Everyday users that allows them to track the most important daily activity statistics such as steps, distance, calories burned, and active minutes. As a clippable tracker, Fitbit Zip can be worn discreetly in a pocket or on a belt. We offer the Fitbit Zip in five colors with a replaceable watch battery that lasts up to six months. Fitbit Zip has a U.S. MSRP of $59.95.

Fitbit One is a more advanced clippable wireless tracker for Everyday users that tracks floors climbed and sleep in addition to daily steps, distance, calories burned, and active minutes. Fitbit One also has a silent alarm that gently vibrates to wake users at a desired time. Fitbit One is available in two colors and offers a rechargeable battery that lasts ten to fourteen days. Fitbit One has a U.S. MSRP of $99.95.

Fitbit Flex is our first wristband-style tracker, with a sleek and stylish design intended for Everyday users. Fitbit Flex tracks steps, distance, calories burned, active minutes, and sleep. Fitbit Flex also has a silent alarm. Fitbit Flex features LED lights to show users' progress towards their primary daily goal. We also offer users the ability to change wristbands for different colors to match their mood or personal style. Fitbit Flex is available in ten colors and its rechargeable battery lasts up to five days. Fitbit Flex has a U.S. MSRP of $99.95.

Fitbit Charge is our activity and sleep wristband for Everyday users that we began selling in October 2014. It tracks steps, distance, calories burned, active minutes, floors climbed, and sleep. Fitbit Charge features a bright OLED display that shows users' daily activity and time of day, as well as incoming caller ID notifications when the device is paired with the user's phone. Fitbit Charge tracks sleep automatically and offers a silent wake alarm. Fitbit Charge is available in four colors and three sizes and is powered by a rechargeable battery that lasts seven to ten days. Fitbit Charge has a U.S. MSRP of $129.95.

Fitbit Alta is our slim, sleek, and customizable wristband for Everyday users that we announced in February 2016. Fitbit Alta offers call, text, and calendar notifications when paired with the user's phone and SmartTrack automatic exercise recognition. It also features reminders to move throughout the day. It measures daily activities such as steps, distance, calories burned, active minutes, and automatically tracks sleep at night. Fitbit Alta can be personalized with interchangeable accessory bands and features a vibrant OLED display. Fitbit Alta is available in four colors and three sizes, and uses a rechargeable battery that lasts up to five days. Fitbit Alta has a U.S. MSRP of $129.95.

Fitbit Charge HR is a wireless heart rate and activity wristband for Active users that we began selling in December 2014. Fitbit Charge HR offers all the features available on the Fitbit Charge and also includes our proprietary PurePulse heart rate tracking technology and SmartTrack automatic exercise recognition. Fitbit Charge HR is available in five colors and two sizes, and uses a rechargeable battery that lasts up to five days. Fitbit Charge HR has a U.S. MSRP of $149.95.

Fitbit Blaze is our smart fitness watch for Active users that we announced in January 2016. It combines features of a smartwatch, heart rate tracker, and activity tracker. It includes features such as FitStar on-screen workouts, connected GPS through a user's smartphone's GPS, PurePulse heart rate tracking, and SmartTrack automatic exercise recognition. It provides multi-sport functionality, tracks outdoor cycling activity, provides run cues, includes a stop watch and timer, and is also designed with advanced smartwatch features, including text and call notifications and music control. Like our other trackers, it measures daily activities such as steps, distance, calories burned, floors climbed, and active minutes and automatically tracks sleep at night. Fitbit Blaze also features a slim design, easily interchangeable bands and frames, and a color touchscreen. Fitbit Blaze is available in three colors and three sizes, and uses a rechargeable battery that lasts up to five days. Fitbit Blaze has a U.S. MSRP of $199.95.

Fitbit Surge is our fitness "super watch" for Performance users that we began selling in December 2014. It combines features of a GPS watch, heart rate tracker, activity tracker, and smartwatch. On its touch screen LCD display, Fitbit Surge displays real-time statistics from its built-in GPS tracker such as speed, distance, and exercise routes. Fitbit Surge incorporates our PurePulse heart rate technology and SmartTrack automatic exercise recognition. It provides multi-sport functionality, tracks outdoor cycling activity, provides run cues, includes a stop watch and timer, and is also designed with advanced smartwatch features, including text and call notifications and music control. Like our other trackers, it measures daily activities such as steps, distance, calories burned, floors climbed, and active minutes and automatically tracks sleep at night. Fitbit Surge is available in three colors and three sizes and incorporates a rechargeable battery that lasts up to seven days. Fitbit Surge has a U.S. MRSP of $249.95.

Aria is our Wi-Fi connected scale that tracks weight, body fat percentage, and BMI. Aria identifies users and shows their weight and body fat percentage on its easy-to-read display. The device recognizes up to eight individual users separately and privately. Aria is available in two colors and runs on standard AA batteries. Aria has a U.S. MSRP of $129.95.

Fitbit Accessories include bands and frames for Fitbit Blaze, bands for Fitbit Alta, colored bands for Fitbit Flex, colored clips for Fitbit One and Fitbit Zip, device charging cables, wireless sync dongles, band clasps, sleep bands, and Fitbit apparel. In addition, our partner Tory Burch offers a pendant and wristband accessory collection for Fitbit Flex and we have announced a Tory Burch accessory collection for Fitbit Alta. These accessories are offered at U.S. MSRPs ranging from $4.95 to $195.00.

Our Interactive Experience

Fitbit online dashboard and mobile apps. We offer our users a personalized online dashboard and mobile apps that sync automatically with, and display real-time data from, our connected health and fitness devices. Through these offerings, we provide users with charts and graphs of their progress, deeper analysis of their activities, and the ability to log caloric intake. Additionally, we motivate users through real-time feedback including notifications, leaderboard and challenge updates, and virtual badges. Our platform also offers users social features, such as leaderboards and challenges, that allow users to receive and provide support and engage in friendly competition. Our online dashboard and mobile apps are available for free through the iOS App Store, Google Play, Windows Store, and on Fitbit.com.

Fitbit Premium is our premium membership that serves as a 24/7 virtual personal trainer delivered to users through any web browser. The program features personalized and dynamic 12 week fitness plans to gradually increase activity levels. It also includes personalized reports and analysis of weekly data accompanied by recommended health and fitness targets and comparisons against peer benchmarks for weight, activity, and sleep. Fitbit Premium is offered on a subscription basis for U.S. $49.99 per year.

FitStar. In March 2015, we acquired FitStar, 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 based on data gathered during their workouts. Through our FitStar offerings, we provide exercise programs through personal trainer and yoga apps that continuously adjust to our users based on feedback throughout the workout. FitStar is offered monthly for U.S. $7.99 or on an annual subscription basis for U.S. $39.99 per year.

Compatibility and Wireless Syncing

In order to reach the widest set of users and facilitate a strong social experience on our platform, we focus on ensuring that our devices are compatible with a broad range of mobile devices and operating systems.

Currently, our users can sync their Fitbit devices with, and use their online dashboard on, over 200 mobile devices including iOS, Android, and Windows Phone operating systems. Additionally, our users can access their online dashboard through a web browser on any smartphone, tablet, PC, or Mac.

Our connected health and fitness trackers wirelessly sync with our online dashboard and mobile apps through Bluetooth low energy technology. This power efficient technology enables our devices to sync with our mobile apps automatically, allowing us to provide users with real-time feedback and notifications. For syncing our fitness trackers with computers, we include a Bluetooth low energy wireless sync dongle with each fitness tracker that plugs into any computer's USB port. Our Aria Wi-Fi connected scale syncs data wirelessly and automatically with users' computers through their home Wi-Fi network. The combination of our cross-platform compatibility and wireless syncing capabilities provides our users with a seamless connected health and fitness experience in the market and differentiates us from our competitors, which may only sync to a single mobile operating system, such as iOS, or to a more limited number of Android mobile devices, or not to computers at all.

Our Commitment to Privacy

We take privacy seriously and offer our users high levels of privacy and security. We are committed to respecting our users' privacy, letting our users decide how their information is used and shared, and keeping their data safe.

We have developed our data collection and use practices in accordance with the Fair Information Practice Principles, more commonly known as FIPPs. We are committed to the following privacy principles as outlined in our privacy policy:

- ***Limited Collection.*** We only collect data that is useful to improving our products, services, and user experience.

- ***Transparent and Easy to Understand Policies.*** We are transparent about our data practices and explain them in clear language.

- ***No Unexpected Uses.*** We never sell user data or use it other than as described in our privacy policy.

- ***Clear Notice and Consent.*** We only share personally identifiable data with third parties, including employers, when our users consent to the sharing and under the limited circumstances outlined in our privacy policy where users' personally identifiable data can be shared without specific consent, such as our receipt of search warrants or subpoenas from law enforcement agencies or in response to a validly issued legal process in a civil litigation matter. We do not currently share information such as heart rate data or geolocation data with employers under our corporate wellness offerings and do not intend to share such data in the future without specific user consent.

- ***Prioritize Security.*** We take the security of our users' data seriously. We use a combination of technical and administrative security controls to maintain the security of user data.

Our platform enables users to share information from Fitbit on an opt-in basis with friends, family, and other parties. Users may link their Fitbit accounts to third-party apps, send status updates on social networks, such as Facebook and Twitter, or share certain data with employers as part of a corporate wellness program. We allow our users to revoke their consent to share data with third parties at any time using their Fitbit account settings. If users choose to share their data with a third party, the data is governed by the privacy policy of the third party.

Research and Development

We are passionate about developing innovative products and services that empower our users to reach their health and fitness goals. We believe our future success depends on our ability to develop new products and features that expand the versatility and performance of our existing platform and we plan to continue to invest significant resources to enhance performance, functionality, and convenience and style for our users.

Our global research and development team supports the design and development of our connected health and fitness devices, proprietary sensors, firmware, data algorithms, and online dashboard and mobile apps. The team is comprised of dedicated research employees, electrical engineers, mechanical engineers, firmware engineers, site operations engineers, and mobile app developers. Our research and development team is primarily based at our headquarters in San Francisco, California as well as several other worldwide locations.

Our research and development expenses were $150.0 million, $54.2 million, and $27.9 million, for 2015, 2014, and 2013, respectively.

Manufacturing, Logistics and Fulfillment

We outsource the manufacturing of our products to several contract manufacturers, including Flextronics which is our primary contract manufacturer. These contract manufacturers produce our products in their facilities located in Asia. The components used in our products are sourced either directly by us or on our behalf by our contract manufacturers from a variety of component suppliers selected by us and located worldwide. Our operations employees coordinate our relationships with our contract manufacturers and component suppliers. We believe that using outsourced manufacturing enables greater scale and flexibility at lower costs than establishing our own manufacturing facilities. We evaluate on an ongoing basis our current contract manufacturers and component suppliers, including, whether or not to utilize new or alternative contract manufacturers or component suppliers.

Under our agreement with Flextronics, Flextronics manufactures certain of our products using design specifications, quality assurance programs, and standards that we establish. We pay for and own all tooling and other equipment specifically required to manufacture our products and have purchase commitments based on our purchase orders and demand forecasts for certain amounts of finished goods, works-in-progress, and components purchased in order to support such purchase orders and forecasts. The agreement has an initial term of one-year that ends in March 2016, and automatically renews for successive one-year terms unless either party provides at least 90 days prior written notice. We expect for the agreement to be renewed in March 2016 for a one-year term. We may terminate for convenience upon providing at least 90 days prior written notice and Flextronics may terminate for convenience upon providing at least 180 days prior written notice.

We work with third-party fulfillment partners that deliver our products from multiple locations worldwide, which allows us to reduce order fulfillment time, reduce shipping costs, and improve inventory flexibility.

Sales Channels and Customers

We sell our products through three primary channels:

Retail channel. We offer our products in over 50,000 retail stores and in 63 countries. We focus on building close relationships with our retailers, working with them to merchandise our products in a compelling manner both in-store and on their e-Commerce sites, promote our products through their marketing efforts, and educate their sales forces about our products.

- *Consumer electronics and specialty retailers.* Our products are sold by retailers with a large domestic and international presence such as Best Buy.
- *e-Commerce retailers.* Our products are sold on Amazon.com, in addition to e-Commerce sites of our retailers.
- *Mass merchant **,** department store, and club retailers.* Our products are sold by large retailers, including Costco, Macy’s, and Walmart.
- *Sporting goods and outdoors retailers.* Our products are sold by sporting goods and outdoors retailers, including Dick’s Sporting Goods, REI, and The Sports Authority.
- *Wireless carriers.* Our products are sold by wireless carriers, including AT&T, Sprint, and Verizon.

Consumer direct channel. We sell our full line of products directly to consumers in the United States and other countries through our online store at Fitbit.com. We drive consumers to our website through online and offline advertising as well as marketing promotions.

Corporate wellness channel. We offer products and services to employers looking to enhance their employee wellness programs. We sell our corporate wellness offering directly to employers or through partners, such as wellness program providers and insurance companies. Through our corporate wellness offering employers can purchase our products at quantity discounts for their employees. We also offer a range of other services to maximize wellness program success, such as easy employee onboarding, an engaging employee leaderboard, real-time group reporting for company administrators, and employee insight into progress towards program goals. We can also integrate with our partners’ existing wellness programs.

Marketing and Advertising

Our marketing and advertising programs are focused on building global brand awareness, increasing product adoption, and driving sales. Our marketing and advertising efforts target a wide range of consumers and leverage traditional advertising methods (including television, cinema, and print magazines), sponsorships and public relations, digital marketing, channel marketing, and endorsements by professional athletes and celebrities.

Our in-store merchandising strategy focuses on our point of purchase, or POP displays. We provide retailers with freestanding, in-line, and endcap POP displays of varying sizes. These displays communicate our marketing messages, present our products and their features and, in many cases, allow consumers to try on our devices and view an interactive app that enables them to learn more about our products.

Intellectual Property

Intellectual property is an important aspect of our business, and we seek protection for our intellectual property as appropriate. We rely upon a combination of patent, copyright, trade secret, and trademark laws and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights.

As the leader in the fast-growing market for connected health and fitness devices, we have developed a significant patent portfolio to protect certain elements of our proprietary technology. As of December 31, 2015, we had 128 issued patents and 151 patent applications pending in the United States. We continually review our development efforts to assess the existence and patentability of new intellectual property. We pursue the registration of our domain names and trademarks and service marks in the United States and in certain locations outside the United States. To protect our brand, as of December 31, 2015, we had an international trademark portfolio comprised of 108 registered trademarks and 96 trademark applications pending in 70 countries.

Competition

The market for connected health and fitness devices is both evolving and competitive. The connected health and fitness devices category 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 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.

The principal competitive factors in our market include:

- brand awareness and focus;
- breadth of product offerings;
- battery life, sensor technology, and tracking features;
- online and mobile app experience;
- strength of sales and marketing efforts; and
- distribution strategy.

We believe we compete favorably with our competitors on the basis of these factors as a result of our leading market position and global brand, advanced and proprietary sensor technologies, software-driven online dashboard and mobile apps, our motivational and social tools, and our premium software offerings. By offering a broad range of products spanning styles and affordable price points and cross-platform compatibility, we empower a wide range of individuals with different fitness routines and goals that are difficult for other competitors to address. Moreover, our singular focus on building a connected health and fitness platform, coupled with a leading market share, has led to our brand becoming synonymous with the connected health and fitness category. This singular focus on health and fitness has driven us to dedicate significant resources to developing proprietary sensors, algorithms, and software to ensure that our products, which are specifically oriented towards health and fitness, have accurate measurements, insightful analytics, compact sizes, durability, and long battery lives. We believe this singular focus allows us to compete favorably with companies that have introduced or have announced plans to introduce devices with broad-based functionalities, including health and fitness tracking capabilities, which are not necessarily optimized for health and fitness usage. Furthermore, our platform and open API have together enabled us to establish a large and growing health and fitness ecosystem that not only provides additional value to our existing users, but also extends our reach to potential new users. This broad compatibility, combined with our market-leading position, has enabled us to attract what we believe is the largest community of connected health and fitness device users, making it more likely that users can connect with friends and family and creating positive network effects that reinforce our growth.

Employees

As of December 31, 2015, we had 1,101 global employees. We have not experienced any work stoppages. We consider our relationship with our employees to be good.

Corporate Information

We were incorporated in Delaware in March 2007 as Healthy Metrics Research, Inc. We changed our name to Fitbit, Inc. in October 2007. We completed our initial public offering in June 2015 and our Class A common stock is listed on The New York Stock Exchange under the symbol "FIT." Our principal executive offices are located at 405 Howard Street, San Francisco, California 94105, and our telephone number is (415) 513-1000. Our website address is www.fitbit.com and our investor relations website address is http://investor.fitbit.com. The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K. Fitbit, the Fitbit logo, FitStar, Fitbit Zip, Fitbit Alta, Fitbit Blaze, Fitbit One, Fitbit Flex, Fitbit Charge, Fitbit Charge HR, Fitbit Surge, Aria, PurePulse, SmartTrack, and our other registered or common law trade names, trademarks, or service marks appearing in this Annual Report on Form 10-K are our intellectual property. This Annual Report on Form 10-K contains additional trade names, trademarks, and service marks of other companies that are the property of their respective owners.

Through a link on our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission, or SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or Exchange Act. All such filings are available free of charge. The public may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC, 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains all reports that we file or furnish with the SEC electronically.

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 Annual Report on Form 10-K, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our 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 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, 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 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. 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 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. 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;
- 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:

- 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, and we do not have any long-term arrangements with our suppliers. 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.

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.

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.

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. 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 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.

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 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 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.

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 of our products and services may decrease. 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.

While we achieved profitability in 2014 and 2015, 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 business is affected by general seasonal spending trends associated with holidays. For example, our fourth quarter has typically been our strongest quarter in terms of revenue, 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 reputation, and cause our revenue to decline. For example, during the peak holiday season in December 2014, we suffered an approximately five-hour outage of our information systems due to high levels of platform usage, which rendered us unable to process and support new users signing onto our platform during that time. 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.

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.

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 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. This 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.

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.

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 recalled the Fitbit Force in March 2014. The recall has exposed us to CPSC regulatory proceedings and extensive litigation in various jurisdictions, including multi-jurisdiction complex federal and state class action and personal injury claims, which

required significant management attention and disrupted our business operations, and adversely affected our financial condition, operating results, and our brand.

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 and the first quarter of 2014. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Fitbit Force Product Recall” in this Annual Report on Form 10-K 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 Annual Report on Form 10-K, 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. While we do not believe that these on-going legal proceedings relating to the Fitbit Force are material, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of any such proceedings and these actions or other third-party claims against us will result in the diversion of management time and attention from other aspects of our business and may cause us to incur substantial litigation or settlement costs.

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 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, our five largest retailers and distributors accounted for approximately 55% of our revenue, respectively. Of these retailers and distributors, Wynit Distribution, Best Buy, and Amazon.com accounted for approximately 15%, 14%, and 14% of our revenue for 2015, 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.

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

We have recently begun to 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, advertising expenses were $237.0 million, representing approximately 13% of our revenue. 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.

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 222 as of December 31, 2013, to 469 as of December 31, 2014 to 1,101 as of December 31, 2015, 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 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 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 8, "Commitments and Contingencies" in the notes to our 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.

Our active user metric only represents the potential size and growth of our engaged user community, and our registered device user metric only represents the number of users who have historically used our devices or paid for a subscription to our services. Therefore, you should not rely on these metrics as indicators of future retention of users, continual user engagement, future payments by users or other revenue opportunities.

Our active user metric tracks the number of users who have an active Fitbit Premium or FitStar subscription, who paired a tracker or Aria scale to a Fitbit account, or who logged at least 100 steps or took a weight measurement within three months of the measurement date. Our registered device user metric tracks the number of users who have historically either paid for a Fitbit Premium or FitStar subscription or paired a tracker or Aria scale to a Fitbit account. The user is counted only once on the first day of becoming a registered device user.

The active user metric and registered device user metric do not provide information regarding the individual users that no longer pay us, or how frequently users engage with our platform or pay us. These metrics also do not take into account the extent to which inactive users are offset by new active users or how long a user remains active or paying. Given the recent rapid growth of the number of users on our platform, it may be difficult to discern whether the growth in active users is the result of retaining existing users or adding new users onto our platform.

The active user metric and registered device user metric only represent the potential size or growth of our user community and is not necessarily an indicator of the actual size and growth of our user community. Therefore, you should not rely on our active user metric or our registered device user metric as indicators of the level of retention of individual users in the future, continual user engagement or future payments by users, nor the potential size and growth of our user community as an indicator for other revenue opportunities, such as subscription-based premium services and our corporate wellness offerings. See the section titled, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics—Active Users" for additional information.

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 2015, 2014, and 2013, 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.

Our failure to comply with U.S. and foreign laws related to privacy, data security, and data protection, such as the E.U. Data Protection Directive 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 recently declared the U.S.-E.U. Safe Harbor Framework invalid. The United States and the European Commission recently agreed to a new framework for transatlantic data flows called the "EU-U.S Privacy Shield." The text of the new framework has not been released and it will require additional approvals by regulators in Europe and/

or the United States 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 develop alternative solutions 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 develop such alternative data transfer solutions, one or more national data protection authorities in the European Union 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.

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. Data Protection Directive, the proposed E.U. 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 recently 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.

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.

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.

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 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 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.

We ceased to be an "emerging growth company" on December 31, 2015, and therefore, 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 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 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 Annual Report on Form 10-K. 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 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 $12.90 to $51.90 through February 19, 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. Any 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 December 31, 2015, there were 214.8 million shares of Class A and Class B common stock outstanding. All lock-up restrictions entered into by security holders in connection with our initial public offering and follow-on offering have expired as of the date of this Annual Report on Form 10-K, 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 December 31, 2015, we had options outstanding that, if fully exercised, would result in the issuance of 0.3 million shares of Class A common stock and 44.1 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 December 31, 2015 that may be settled for 2.8 million shares of Class A common stock and 0.5 million shares of Class B common stock. All of the shares 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 December 31, 2015, 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;
- 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 1B. Unresolved Staff Comments

None.

Item 2. Properties

We are a global company with our corporate headquarters located in San Francisco, California. Our headquarters facilities in San Francisco comprise approximately 255,628 square feet of space pursuant to several leases that expire at various dates through July 2024. Our corporate headquarters serve as the principal facilities for our administrative, sales, marketing, product development, and customer support groups. We also lease additional office space in San Francisco and around the world for various product development, operational and support purposes. We believe our existing facilities are adequate to meet our current requirements. If we were to require additional space, we believe we will be able to obtain such space on acceptable and commercially reasonable terms.

Item 3. Legal Proceedings

For a discussion of legal proceedings, see Note 8, “Commitments and Contingencies,” in the notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

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 4. Mine Safety Disclosures

None.

PART II

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

Price Range of Common Stock

Our Class A common stock has been listed on the New York Stock Exchange under the symbol “FIT” since June 18, 2015. Prior to that date, there was no public trading market for our Class A common stock. The following table sets forth for the periods indicated the high and low sale prices per share of our Class A common stock as reported on the New York Stock Exchange:

	High	Low
Fiscal Year 2015		
Second Quarter (from June 18, 2015)	$ 40.45	$ 29.50
Third Quarter	$ 51.90	$ 30.51
Fourth Quarter	$ 41.97	$ 26.46

Our Class B common stock is neither listed nor traded.

Holders of Record

As of December 31, 2015, we had 52 holders of record of our Class A common stock. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. As of December 31, 2015, we had 72 holders of record of our Class B common stock.

Dividends

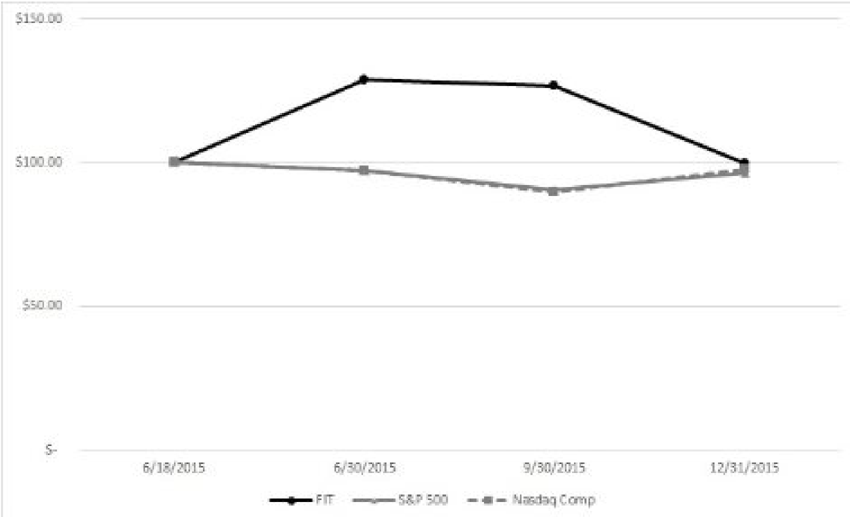
We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings and do not expect to pay any cash dividends on our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, operating results, capital requirements, general business conditions, and other factors that our board of directors considers relevant. In addition, the terms of our credit facility contains restrictions on our ability to declare and pay cash dividends.

Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item with respect to our equity compensation plans is incorporated by reference to our Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2015.

Stock Performance Graph

The following graph compares the cumulative total return on our Class A common stock with that of the S&P 500 Index and the Nasdaq Composite Index. The period shown commences on June 18, 2015 and ends on December 31, 2015, the end of our last fiscal year. The graph assumes $100 was invested at the close of market on June 28, 2015 in our Class A common stock, the S&P 500 Index and the Nasdaq Composite Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not intended to forecast or be indicative of future stock price performance of our Class A common stock.



This performance graph shall not be deemed incorporated by reference into any of our other filings under the Exchange Act, or the Securities Act, except to the extent we specifically incorporate it by reference into such filing.

Recent Sales of Unregistered Securities.

None.

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).

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. Selected Financial Data

We derived the selected consolidated statements of operations data for 2015, 2014, and 2013 and the selected consolidated balance sheet data as of December 31, 2015 and 2014 from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for 2012 and 2011, and the consolidated balance sheet data as of December 31, 2013, 2012, and 2011 are derived from audited consolidated financial statements that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected in the future. You should read this data together with our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	As of or For the Year Ended December 31,				
	2015 (1)	2014 (1)	2013 (1)	2012	2011
	(in thousands, except per share data)				
Consolidated Statements of Operations Data :					
Revenue	$ 1,857,998	$ 745,433	$ 271,087	$ 76,373	$ 14,454
Cost of revenue (2)	956,935	387,776	210,836	49,733	9,222
Gross profit	901,063	357,657	60,251	26,640	5,232
Operating expenses:					
Research and development (2)	150,035	54,167	27,873	16,210	6,133
Sales and marketing (2)	332,741	112,005	26,847	10,237	1,868
General and administrative (2)	77,793	33,556	14,485	3,968	1,544
Change in contingent consideration	(7,704)	—	—	—	—
Total operating expenses	552,865	199,728	69,205	30,415	9,545
Operating income (loss)	348,198	157,929	(8,954)	(3,775)	(4,313)
Interest expense, net	(1,019)	(2,222)	(1,082)	(176)	(15)
Other income (expense), net	(59,230)	(15,934)	(3,649)	26	15
Income (loss) before income taxes	287,949	139,773	(13,685)	(3,925)	(4,313)
Income tax expense	112,272	7,996	37,937	291	4
Net income (loss)	$ 175,677	$ 131,777	$ (51,622)	$ (4,216)	$ (4,317)
Net income (loss) per share attributable to common stockholders (3) :					
Basic	$ 0.88	$ 0.70	$ (1.32)	$ (0.11)	$ (0.12)
Diluted	$ 0.75	$ 0.63	$ (1.32)	$ (0.11)	$ (0.12)
Other Data :					
Devices sold (4)	21,355	10,904	4,476	1,279	208
Active users (5)	16,903	6,700	2,570	558	
Registered device users (5)	29,033	11,068	3,534		
Adjusted EBITDA (6)	$ 389,879	$ 191,042	$ 79,049	$ (2,401)	$ (4,023)

(1) In March 2014, we recalled the Fitbit Force. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Fitbit Force Product Recall" for additional information. The recall, which primarily affected our results for the fourth quarter of 2013, the first quarter of 2014, and the fourth quarter of 2015 and had the following effect on our income (loss) before income taxes:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Reduction of revenue	$ —	$ (8,112)	$ (30,607)
Incremental (benefit to) cost of revenue	(5,755)	11,339	51,205
Impact on gross profit	(5,755)	(19,451)	(81,812)
Incremental general and administrative expenses (benefit)	(4,416)	3,389	2,838
Impact on income (loss) before income taxes	$ 10,171	$ (22,840)	$ (84,650)

See note 6 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for discussion of the portion of these expenses (benefits) that were recorded through the Force Recall reserve.

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands)				
Cost of revenue	$ 4,739	$ 890	$ 37	$ 15	$ 8
Research and development	18,251	2,350	288	62	27
Sales and marketing	7,419	1,295	204	29	—
General and administrative	10,615	2,269	91	26	25
Total	$ 41,024	$ 6,804	$ 620	$ 132	$ 60

(3) See notes 3 and 13 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for an explanation of the calculations of our net income (loss) per share attributable to common stockholders, basic and diluted.
(4) See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics—Devices Sold" for more information.
(5) We believe that the active user and registered device user metrics are indicators of the potential size of our community, but currently we do not believe that these have a direct effect on our revenue and operating results. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics" for more information.
(6) Adjusted EBITDA is a financial measure that is not calculated in accordance with U.S. GAAP. See the section titled "—Adjusted EBITDA" for information regarding our use of adjusted EBITDA and a reconciliation of adjusted EBITDA to net income (loss).

	As of December 31,				
	2015	2014	2013	2012	2011
	(in thousands)				
Consolidated Balance Sheet Data :					
Cash, cash equivalents, and marketable securities	$ 664,478	$ 195,626	$ 81,728	$ 13,148	$ 14,788
Working capital (1)	847,157	101,860	14,457	17,477	15,073
Total assets	1,519,066	633,051	230,774	51,699	22,139
Total long-term debt	—	132,589	10,710	8,439	739
Retained earnings (accumulated deficit)	242,919	67,242	(64,535)	(12,913)	(8,697)
Total stockholders' equity (deficit)	981,451	75,262	(63,466)	(12,707)	(8,627)

(1) In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* . This ASU requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. We early adopted this accounting standard retrospectively in the fourth quarter of 2015 and reclassified all our current deferred tax assets to noncurrent deferred tax assets on our consolidated balance sheets for all periods presented.

Adjusted EBITDA

To supplement our consolidated financial statements presented in accordance with 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 (loss) 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, change in contingent consideration, interest 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Fitbit Force Product Recall" in this Annual Report on Form 10-K and certain expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our business. 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 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 (loss), which is the nearest U.S. GAAP equivalent of adjusted EBITDA. Some of these limitations are:

- 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;
- 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;
- adjusted EBITDA excludes the revaluation of our redeemable convertible preferred stock warrant liability, which was a historically recurring non-cash charge prior to our initial public offering, but will not recur in the periods following the completion of our initial public offering;
- adjusted EBITDA excludes depreciation and intangible assets amortization expense and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;
- adjusted EBITDA excludes change in contingent consideration, a non-recurring benefit received for the reversal of a contingent liability incurred in connection with the acquisition of FitStar;
- adjusted EBITDA does not reflect interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us;
- adjusted EBITDA does not reflect income tax payments that reduce cash available to us; and
- the expenses and other items that we exclude in our calculation of adjusted EBITDA may differ from the expenses and other items, if any, that other companies may exclude from adjusted EBITDA when they report their operating results.

Because of these limitations, 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 (loss) to adjusted EBITDA:

	Year Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(in thousands)				
Net income (loss)	$ 175,677	$ 131,777	$ (51,622)	$ (4,216)	$ (4,317)
Impact of Fitbit Force recall	(10,171)	22,840	84,650	—	—
Stock-based compensation expense	41,024	6,804	620	132	60
Revaluation of redeemable convertible preferred stock warrant liability	56,655	13,272	3,370	37	13
Depreciation and amortization	21,107	6,131	3,012	1,179	202
Change in contingent consideration	(7,704)	—	—	—	—
Interest expense, net	1,019	2,222	1,082	176	15
Income tax expense	112,272	7,996	37,937	291	4
Adjusted EBITDA	$ 389,879	$ 191,042	$ 79,049	$ (2,401)	$ (4,023)

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the section titled "Selected Financial Data" and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from such forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those identified below and those discussed above in the section titled "Risk Factors" included elsewhere in this Report.

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. 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 2015, 26% 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 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.

We have grown significantly since our inception. The following are financial highlights for 2015, 2014, and 2013:

	For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Revenue	$ 1,857,998	$ 745,433	$ 271,087
Net income (loss)	$ 175,677	$ 131,777	$ (51,622)
Adjusted EBITDA	$ 389,879	$ 191,042	$ 79,049
Devices sold	21,355	10,904	4,476

See the section titled "Selected Financial Data—Adjusted EBITDA" in this Annual Report on Form 10-K for information regarding our use of adjusted EBITDA and a reconciliation of adjusted EBITDA to net income (loss). See the section titled "—Key Business Metrics" in this Annual Report on Form 10-K for additional information regarding devices sold.

Key Business Metrics

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

	As of or For the Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Devices sold	21,355	10,904	4,476
Active users	16,903	6,700	2,570
Registered device users	29,033	11,068	3,534
Adjusted EBITDA	$ 389,879	$ 191,042	$ 79,049

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. MSRPs, and sales of accessories and premium services.

Active Users

We define an active user as a registered Fitbit user who, within the three months prior to the date of measurement, has (a) an active Fitbit Premium or FitStar subscription, (b) paired a health and fitness tracker or Aria scale with his or her Fitbit account, or (c) logged at least 100 steps with a health and fitness tracker or a weight measurement using an Aria scale. The number of active users is based on subscription and device activity associated with each Fitbit user account and, accordingly, a user with multiple devices synced to his or her Fitbit account is counted as only one active user regardless of the number of devices that such user syncs to the account. The number of active users excludes users who have downloaded our mobile apps without purchasing any of our connected health and fitness devices and users who have downloaded free versions of FitStar but are not subscribers to its paid premium offerings.

We believe that the active user metric is an indicator of the size and growth of our community, but currently we do not believe that it has a direct effect on our revenue and operating results since substantially all of our revenue to date has been derived from sales of our connected health and fitness devices. The active user metric is not necessarily an indicator of the actual size and future growth of our user community, who we believe to be the most likely to purchase additional products and services on our platform, such as our subscription-based premium services. Accordingly, the active user metric only represents the potential size or growth of our engaged user community. The active user metric is not a measure of the levels of continuous engagement of our individual users over periods of time and does not track the number of individual users that have become inactive on our platform in a period. Instead, the active user metric, as of any given measurement date, represents an aggregate of both existing and new users who have met the definition of an "active user" on one occasion during the previous three months, whether that user became newly active or was an existing active user from a prior period. Accordingly, this metric does not take into account the extent to which inactive users are offset by new active users or how long an individual user remains active. Given the recent rapid growth of the number of users on our platform, it may be difficult to discern whether the growth in active users is the result of retaining existing users or adding new users onto our platform.

Therefore, you should not rely on our active user metric as an indicator of the level of user retention of individual users in the future, continual user engagement or of future payments, nor the potential size and growth of our user community as an indicator for other revenue opportunities, such as subscription-based premium services and our corporate wellness offerings.

Registered Device Users

A user becomes a registered device user on the first day the user: (a) becomes a paid subscriber of Fitbit Premium, (b) becomes a paid subscriber to FitStar or (c) uses a health and fitness tracker or Aria scale with his or her Fitbit account. The user is counted only once on the first day of becoming a registered device user. The number of registered device users excludes users who have only downloaded our mobile apps without pairing a health and fitness tracker or Aria scale and users who have only downloaded free versions of FitStar but are not subscribers to its paid premium offerings.

We believe that the registered device user metric is an indicator of the potential size and growth of our paid user community but is not necessarily an indicator of the actual size and future growth of our paid user community. The registered device user metric only reflects users that have historically used our devices or paid for a subscription to our services and it is not necessarily an indicator of future payments by users. The registered device user metric also does not provide information regarding the individual users that no longer pay us, how frequently users pay us, or how long a user remains paying. Furthermore, the registered device user metric is not a measure of the levels of continuous engagement of our individual users over periods of time and does not track the number of individual users that have become inactive on our platform in a period.

Therefore, you should not rely on our registered device user metric as an indicator of the level of retention of individual users in the future, continual user engagement, future payment by users, nor the potential size and growth of our user community as an indicator for other revenue opportunities, such as subscription-based premium services and our corporate wellness offerings.

Adjusted EBITDA

We define adjusted EBITDA as net income (loss) adjusted to exclude the impact of the Fitbit Force recall, stock-based compensation expense, the revaluation of our redeemable convertible preferred stock warrant liability, depreciation and intangible assets amortization, change in contingent consideration, interest expense and income tax expense. See the section titled “Selected Financial Data—Adjusted EBITDA” in this Annual Report on Form 10-K for information regarding our use of adjusted EBITDA and a reconciliation of adjusted EBITDA to net income (loss).

Factors Affecting Our Future Performance

Product Introductions

To date, product introductions have had a significant, positive impact on our operating results due primarily to increases in revenue associated with sales of the new products in the quarters following their introduction. Since the beginning of 2013, we have released six new connected health and fitness devices, including the Fitbit Charge, Fitbit Charge HR, and Fitbit Surge, which were released in the fourth quarter of 2014 and were the primary drivers of our revenue growth in 2015. We announced Fitbit Blaze in January 2016 and Fitbit Alta in February 2016. We expect that the impact of these new product introductions on our revenue will lessen over time and we cannot assure that they will have a similarly positive impact in 2016. Furthermore, new product introductions could also adversely impact the sales of our existing products to retailers and users. New products may also have higher costs associated with them, as was the case for new products introduced in the fourth quarter of 2014, which could adversely affect our margins. In addition, we have incurred higher levels of sales and marketing expenses accompanying each product introduction. In the future, we intend to continue to release new products and enhance our existing products, and we expect that our operating results will be impacted by these releases.

International Expansion

Our products are sold in 63 countries, and we have experienced significant growth in international sales in recent periods. In 2015, 26% of our revenue, based on ship-to destinations, was from sales outside of the United States. We believe our global opportunity is significant, and to address this opportunity, we intend to continue to invest in sales and marketing efforts, distribution channels, and infrastructure and personnel to support our international expansion, including establishing additional sales offices globally. Our growth will depend in part on the adoption and sales of our products and services in international markets. Moreover, 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.

Category Adoption and Market Growth

Consumer spend on the wearable devices market is growing faster than on any segment in the global consumer electronics market. As a pioneer of this market and a leading connected health and fitness platform, we believe we have contributed significantly to the market's growth. However, our future growth depends in part on the continued consumer adoption of wearable devices as a means to improve health and fitness and the growth of this market.

Competition

The market for connected health and fitness devices is both evolving and competitive. The connected health and fitness devices category 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 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 we compete favorably with our competitors on the basis of these factors as a result of our leading market position and global brand, advanced and proprietary sensor technologies, software-driven online dashboard and mobile apps, our motivational and social tools, and our premium software offerings. By offering a broad range of products spanning styles and affordable price points and cross-platform compatibility, we empower a wide range of individuals with different fitness routines and goals that are difficult for other competitors to address.

Seasonality

Historically, we have experienced higher revenue in the fourth quarter compared to other quarters due in large part to seasonal holiday demand. For example, in 2015 and 2014, our fourth quarter represented 38% and 50% of our annual revenue, respectively. We also incur higher sales and marketing expenses during these periods.

Investing in Growth

We intend to continue to make investments across our business to drive our growth. We intend to continue to invest significant resources in our sales, marketing, advertising, and brand management efforts to drive demand for our products and services globally. We also intend to continue to invest in research and development to enable us to introduce innovative new products and services and enhance existing products and services. We may also make acquisitions to further drive our growth . For example, we acquired FitStar in March 2015 to enhance our software and services offerings through interactive video-based exercise experiences on mobile devices and computers.

Furthermore, we intend to increase our focus on building relationships with employers and wellness providers. The corporate wellness market for connected health and fitness devices is new and is subject to a variety of challenges, including whether employers will continue to invest in such programs, long sales cycles, and substantial upfront sales costs. In each of 2015, 2014, and 2013, we derived less than 10% of our revenue from our corporate wellness offerings. However, we believe that as healthcare costs continue to rise and as employers continue to seek ways to keep their employees active, engaged, and productive, more employers will implement or enhance their corporate wellness programs. In order to grow our corporate wellness presence, we intend to enhance our corporate wellness offering as well as expand our sales team focused on this market.

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, general and administrative expenses, and change in contingent consideration.

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.

We expect our research and development expenses to increase in absolute dollars as we continue to make significant investments in developing new products and services and enhancing existing products and services.

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 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. We expect our general and administrative expenses to increase in absolute dollars due to the anticipated growth of our business and related infrastructure as well as legal, accounting, insurance, investor relations, and other costs associated with becoming a public company.

Change in contingent consideration . The change in contingent consideration relates to the benefit received from the reversal of a contingent liability incurred in connection with the acquisition of FitStar. See note 15 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information.

Interest Expense, Net

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

Other Expense, Net

Other 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 (loss) before income taxes:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Reduction of revenue	$ —	$ (8,112)	$ (30,607)
Incremental (benefit to) cost of revenue	(5,755)	11,339	51,205
Impact on gross profit	(5,755)	(19,451)	(81,812)
Incremental general and administrative expenses (benefit)	(4,416)	3,389	2,838
Impact on income (loss) before income taxes	$ 10,171	$ (22,840)	$ (84,650)

During 2013, incremental cost of revenue related to the recall included charges to the recall reserve of $49.5 million and a write-off of tooling and manufacturing equipment of $1.7 million, which was recognized as incurred. During 2014, general and administrative expenses included legal fees of $2.9 million, which were recognized as incurred, and legal settlement costs of $0.5 million, which were included in the Fitbit Force recall reserve. During 2015, a benefit to legal expenses of $4.4 million was recognized in general and administrative costs, of which $1.2 million was previously included in the Fitbit Force recall reserve. See note 6 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information.

Operating Results

The following tables set forth the components of our 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.

	Year Ended December 31,		
	2015 (1)	2014 (1)	2013 (1)
	(in thousands)		
Consolidated Statements of Operations Data :			
Revenue	$ 1,857,998	$ 745,433	$ 271,087
Cost of revenue (2)	956,935	387,776	210,836
Gross profit	901,063	357,657	60,251
Operating expenses:			
Research and development (2)	150,035	54,167	27,873
Sales and marketing (2)	332,741	112,005	26,847
General and administrative (2)	77,793	33,556	14,485
Change in contingent consideration	(7,704)	—	—
Total operating expenses	552,865	199,728	69,205
Operating income (loss)	348,198	157,929	(8,954)
Interest expense, net	(1,019)	(2,222)	(1,082)
Other income expense, net	(59,230)	(15,934)	(3,649)
Income (loss) before income taxes	287,949	139,773	(13,685)
Income tax expense	112,272	7,996	37,937
Net income (loss)	$ 175,677	$ 131,777	$ (51,622)

(1) In March 2014, we recalled the Fitbit Force. See the section titled "—Fitbit Force Product Recall" for additional information. The recall, which primarily affected our results for the fourth quarter of 2013, the first quarter of 2014, and the fourth quarter of 2015 and had the following effect on our income (loss) before income taxes:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Reduction of revenue	$ —	$ (8,112)	$ (30,607)
Incremental (benefit to) cost of revenue	(5,755)	11,339	51,205
Impact on gross profit	(5,755)	(19,451)	(81,812)
Incremental general and administrative expenses (benefit)	(4,416)	3,389	2,838
Impact on income (loss) before income taxes	$ 10,171	$ (22,840)	$ (84,650)

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

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Cost of revenue	$ 4,739	$ 890	$ 37
Research and development	18,251	2,350	288
Sales and marketing	7,419	1,295	204
General and administrative	10,615	2,269	91
Total	$ 41,024	$ 6,804	$ 620

	Year Ended December 31,		
	2015 [(1)]	2014 [(1)]	2013 [(1)]
	(as a percentage of revenue)		
Consolidated Statements of Operations Data :			
Revenue	100%	100%	100 %
Cost of revenue	52	52	78
Gross profit	48	48	22
Operating expenses:			
Research and development	8	7	10
Sales and marketing	18	15	10
General and administrative	4	5	5
Change in contingent consideration	—	—	—
Total operating expenses	30	27	25
Operating income (loss)	18	21	(3)
Interest expense, net	—	—	—
Other expense, net	(3)	(2)	(2)
Income (loss) before income taxes	15	19	(5)
Income tax expense	6	1	14
Net income (loss)	9%	18%	(19)%

(1) In March 2014, we recalled the Fitbit Force. See the section titled "—Fitbit Force Product Recall" for additional information. The recall, which primarily affected our results for the fourth quarter of 2013, the first quarter of 2014, and the fourth quarter of 2015 and had the following effect on our income (loss) before income taxes:

	Year Ended December 31,		
	2015	2014	2013
	(as a percentage of revenue)		
Incremental (benefit to) cost of revenue	(1)%	2 %	19 %
Impact on gross profit	1	(3)	(30)
Incremental general and administrative expenses	—	—	1
Impact on income (loss) before taxes	1 %	(3)%	(31)%

Comparison of 2015 and 2014

Revenue

	Year Ended December 31,		Change	
	2015	2014 (1)	$	%
	(in thousands)			
Revenue	$ 1,857,998	$ 745,433	$ 1,112,565	149%

(1) The Fitbit Force recall resulted in a decrease to revenue of $8.1 million for 2014. See the section titled "—Fitbit Force Product Recall" for additional information.

Revenue increased $1,113 million, or 149%, from $745.4 million for 2014 to $1,858 million for 2015. A substantial majority of the increase was due to an increase in the number of devices sold from 10.9 million in 2014 to 21.4 million in 2015, including $1,427 million in revenue in 2015 from new products introduced in the fourth quarter of 2014. Revenue also increased due to an increase in the average selling price of our devices by 29% from $66 per device for 2014 to $85 per device for 2015, due to new products introduced in the fourth quarter of 2014. The increase in revenue includes the negative impact of foreign currency exchange rates of $56.3 million, net of the impact of foreign currency hedges. U.S. revenue, based on ship-to destinations, increased $818.6 million, or 146%, from $562.5 million for 2014 to $1,381.1 million 2015, and international revenue, based on ship-to destinations, increased by $293.9 million, or 161%, from $182.9 million for 2014 to $476.8 million for 2015.

Cost of Revenue

	Year Ended December 31,		Change	
	2015 (1)	2014 (1)	$	%
	(dollars in thousands)			
Cost of revenue	$ 956,935	$ 387,776	$ 569,159	147%
Gross profit	901,063	357,657	543,406	152%
Gross margin	48%	48%		

(1) The Fitbit Force recall resulted in a benefit to cost of revenue of $5.8 million and an increase to cost of revenue of $11.3 million for 2015 and 2014, respectively, an increase in gross profit of $5.8 million and a decrease in gross profit of $19.5 million for 2015 and 2014, respectively, and a negligible increase in gross margin and a decrease in gross margin of 3 percentage points for 2015 and 2014, respectively. See the section titled "—Fitbit Force Product Recall" for additional information.

Cost of revenue increased $569.2 million, or 147%, from $387.8 million for 2014 to $956.9 million for 2015. 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 fourth quarter of 2014. In addition, we recognized a $5.8 million benefit to cost of revenue for 2015 compared to an $11.3 million increase to cost of revenue for 2014 in connection with the recall of the Fitbit Force.

Gross margin was 48% for both 2015 and 2014. Gross margin for 2015 was primarily affected by the aforementioned impact of lower margins on new products introduced in the fourth quarter of 2014 and the negative impact of foreign currency exchange rates on product pricing, offset by a reduction in costs incurred in connection with the recall of the Fitbit Force and to a lesser extent, reduced estimated costs of warranty claims.

Research and Development

	Year Ended December 31,		Change	
	2015	2014	$	%
	(in thousands)			
Research and development	$ 150,035	$ 54,167	$ 95,868	177%

Research and development expenses increased $95.9 million, or 177%, from $54.2 million for 2014 to $150.0 million for 2015. The increase was primarily due to a $64.3 million increase in personnel-related expenses due to a 176% increase in headcount, a $14.5 million increase in consultant and contractor expenses, a $6.8 million increase in tooling and prototype materials, a $5.3 million increase in allocated overhead, and a $2.2 million increase in travel expenses.

We expect research and development expenses as a percentage of revenue to increase in 2016.

Sales and Marketing

	Year Ended December 31,		Change	
	2015	2014	$	%
	(in thousands)			
Sales and marketing	$ 332,741	$ 112,005	$ 220,736	197%

Sales and marketing expenses increased $220.7 million, or 197%, from $112.0 million for 2014 to $332.7 million for 2015. The increase was primarily due to a $178.2 million increase in expenses associated with advertising costs and other marketing programs, driven by the launch of media campaigns during 2015. In addition, consulting and contractor expenses increased $21.2 million, and personnel-related expenses increased $20.0 million due to a 96% increase in headcount.

We expect sales and marketing expenses as a percentage of revenue to increase from or remain relatively consistent in 2016 from 2015.

General and Administrative

	Year Ended December 31,		Change	
	2015	2014 (1)	$	%
	(in thousands)			
General and administrative	$ 77,793	$ 33,556	$ 44,237	132%

(1) The Fitbit Force recall resulted in a benefit to general and administrative expenses of $4.4 million and an increase to general and administrative expenses of $3.4 million for 2015 and 2014, respectively. See the section titled "—Fitbit Force Product Recall" for additional information.

General and administrative expenses increased $44.2 million, or 132%, from $33.6 million for 2014 to $77.8 million for 2015. The increase was primarily due to a $23.8 million increase in personnel-related expenses due to a 141% increase in headcount, an $8.7 million increase in consulting and contractor expenses, a $7.8 million increase in other administrative expenses and taxes, a $0.9 million increase in recruiting expenses, a $0.8 million increase in allocated overhead, and a $0.7 million increase in legal fees. The $0.7 million increase in legal fees is net of a benefit of $4.4 million related to the Fitbit Force recall.

We expect general and administrative expenses as a percentage of revenue in 2016 to be relatively consistent with 2015.

Change in Contingent Consideration

	Year Ended December 31,		Change
	2015	2014	$
	(in thousands)		
Change in contingent consideration	$ (7,704)	$ —	$ (7,704)

The change in contingent consideration benefit of $7.7 million for 2015 is a result of our re-measurement of the contingent consideration liability related to our acquisition of FitStar. This is a non-recurring benefit. There was no contingent liability as of December 31, 2015 as the terms of the contingent consideration have expired.

Interest and Other Expense, Net

	Year Ended December 31,		Change	
	2015	2014	$	%
	(in thousands)			
Interest expense, net	$ (1,019)	$ (2,222)	$ 1,203	(54)%
Other expense, net	(59,230)	(15,934)	(43,296)	272 %

Interest expense, net decreased $1.2 million, or 54%, from $2.2 million for 2014 to $1.0 million for 2015. The decrease was primarily due to a decrease in 2015 in average indebtedness outstanding compared to 2014. Other expense, net, increased $43.3 million, from $15.9 million for 2014 to $59.2 million for 2015. The increase was primarily due to an increase of $43.4 million in charges related to the revaluation of our convertible preferred stock warrant liability from $13.3 million for 2014 to $56.7 million for 2015.

Income Tax Expense

	Year Ended December 31,		Change	
	2015	2014	$	%
	(in thousands)			
Income tax expense	$ 112,272	$ 7,996	$ 104,276	1,304%

Income tax expense increased $104.3 million from $8.0 million for 2014 to $112.3 million for 2015. Our effective tax rate was 39.0% and 5.7% for 2015 and 2014, respectively. The increase in income tax expense and effective tax rate for 2015 was primarily due to increased earnings during this period. The low effective tax rate in 2014 was due to a $51.3 million tax benefit related to the release of a valuation allowance on deferred tax assets related to accruals, which includes the impact of costs incurred in 2013 in connection with the Fitbit Force recall, and tax credits from prior years. This non-recurring tax benefit is offset by income tax expense on earnings in 2014 and a downward revaluation of our deferred tax assets due to a change in state tax law enacted in 2014.

Comparison of 2014 and 2013

Revenue

	Year Ended December 31,		Change	
	2014 (1)	2013 (1)	$	%
	(in thousands)			
Revenue	$ 745,433	$ 271,087	$ 474,346	175%

(1) The Fitbit Force recall resulted in a decrease to revenue of $30.6 million and $8.1 million in 2013 and 2014, respectively. See the section titled "—Fitbit Force Product Recall" for additional information.

Revenue increased $474.3 million, or 175%, from $271.1 million for 2013 to $745.4 million for 2014. A substantial majority of the increase was due to an increase in the number of devices sold from 4.5 million in 2013 to 10.9 million in 2014, including $151.9 million from new products that we began selling in 2014. U.S. revenue, based on ship-to destinations, increased $356.5 million, or 173%, from $206.1 million for 2013 to $562.6 million for 2014 and international revenue, based on ship-to destinations, increased by $117.9 million, or 181%, from $65.0 million for 2013 to $182.9 million for 2014.

Cost of Revenue

	Year Ended December 31,		Change	
	2014 (1)	2013 (1)	$	%
	(dollars in thousands)			
Cost of revenue	$ 387,776	$ 210,836	$ 176,940	84%
Gross profit	357,657	60,251	297,406	494%
Gross margin	48%	22%		

(1) The Fitbit Force recall resulted in an increase to cost of revenue of $51.2 million and $11.3 million in 2013 and 2014, respectively, a decrease in gross profit of $81.8 million and $19.5 million in 2013 and 2014, respectively, and a decrease of 30 percentage points and 3 percentage points in gross margin in 2013 and 2014, respectively. See the section titled "—Fitbit Force Product Recall" for additional information.

Cost of revenue increased $176.9 million, or 84%, from $210.8 million for 2013 to $387.8 million for 2014. The increase was primarily due to the increase in the number of devices sold, partially offset by a decrease of $39.9 million in costs, from $51.2 million in 2013 to $11.3 million in 2014, incurred in connection with the recall of the Fitbit Force.

Gross margin increased to 48% for 2014 from 22% for 2013. The increase in gross margin was primarily due to a reduction in costs incurred in connection with the recall of the Fitbit Force.

Research and Development

	Year Ended December 31,		Change	
	2014	2013	$	%
	(in thousands)			
Research and development	$ 54,167	$ 27,873	$ 26,294	94%

Research and development expenses increased $26.3 million, or 94%, from $27.9 million for 2013 to $54.2 million for 2014. The increase was primarily due to a $13.9 million increase in personnel-related expenses due to a 110% increase in headcount, a $12.9 million increase in consultant and contractor expenses, and a $3.6 million increase in allocated overhead, which was partially offset by a decrease in expenses for tooling and prototype materials of $4.2 million.

Sales and Marketing

	Year Ended December 31,		Change	
	2014	2013	$	%
	(in thousands)			
Sales and marketing	$ 112,005	$ 26,847	$ 85,158	317%

Sales and marketing expenses increased $85.2 million, or 317%, from $26.8 million for 2013 to $112.0 million for 2014. The increase was primarily due to a $66.9 million increase in expenses associated with advertising costs and other marketing programs. In addition, consulting and contractor expenses increased $9.6 million and personnel-related expenses increased $9.3 million due to a 131% increase in headcount, partially offset by a decrease of $0.6 million of other expenses.

General and Administrative

	Year Ended December 31,		Change	
	2014 (1)	2013 (1)	$	%
	(in thousands)			
General and administrative	$ 33,556	$ 14,485	$ 19,071	132%

(1) The Fitbit Force recall resulted in an increase to general and administrative expenses of $2.8 million and $3.4 million in 2013 and 2014, respectively. See the section titled "—Fitbit Force Product Recall" for additional information.

General and administrative expenses increased $19.1 million, or 132%, from $14.5 million for 2013 to $33.6 million for 2014. The increase was primarily due to a $6.8 million increase in legal fees, a $5.7 million increase in personnel-related expenses due to a 64% increase in headcount, a $2.2 million increase in allocated overhead, and a $2.7 million increase in consulting and contractor expenses.

Interest and Other Income (Expense), Net

	Year Ended December 31,		Change	
	2014	2013	$	%
	(in thousands)			
Interest expense, net	$ (2,222)	$ (1,082)	$ (1,140)	105%
Other expense, net	(15,934)	(3,649)	(12,285)	337%

Interest expense, net increased $1.1 million, or 105%, from $1.1 million for 2013 to $2.2 million for 2014. The increase was primarily due to an increase in 2014 in average indebtedness outstanding compared to 2013. Other expense, net, increased $12.3 million, or 337%, from $3.6 million for 2013 to $15.9 million for 2014. The increase was primarily due to an increase of $9.9 million in charges related to the revaluation of our redeemable convertible preferred stock warrant liability and a $2.5 million increase in foreign exchange loss.

Income Tax Expense

	Year Ended December 31,		Change	
	2014	2013	$	%
	(in thousands)			
Income tax expense	$ 7,996	$ 37,937	$ (29,941)	(79)%

Income tax expense decreased $29.9 million, or 79%, from $37.9 million for 2013 to $8.0 million for 2014. Our effective tax rate was 277.2% and 5.7% for 2013 and 2014, respectively. The decrease in income tax expense and effective tax rate in 2014 was due to a $51.3 million tax benefit related to the release of a valuation allowance on deferred tax assets for accruals, which includes the impact of costs incurred in 2013 in connection with the Fitbit Force recall, and tax credits from prior years. This non-recurring tax benefit is offset by income tax expense on earnings in 2014 and a downward revaluation of our deferred tax assets due to a change in state tax law enacted in 2014.

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 December 31, 2015, we had cash and cash equivalents of $535.8 million and marketable securities of $128.6 million.

In June 2015, we completed our initial public offering of our Class A common stock. We received net proceeds of $420.9 million after deducting underwriting discounts and commissions of $26.9 million, but before deducting offering expenses of approximately $5.0 million. In November 2015, we completed our follow-on offering of our Class A common stock. We received net proceeds of $84.4 million after deducting underwriting discounts and commissions of $2.6 million, but before deducting offering expenses of approximately $1.2 million.

Approximately 10% of our cash, cash equivalents, and marketable securities are held by our foreign subsidiaries. Our intent is to indefinitely reinvest our earnings from foreign operations and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund operations in the United States and if U.S. tax has not already been previously accrued, we would be required to accrue and pay additional U.S. taxes in order to repatriate these funds.

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, with Silicon Valley Bank, or SVB, as administrative agent, collateral agent, and lender, SunTrust Bank as syndication agent, SunTrust Robinson Humphrey, Inc. and several other lenders to replace our existing asset-based credit facility and cash flow facility. This Senior Facility 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. 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.

We have the option to repay our borrowings under the Senior Facility without penalty prior to maturity. The Senior Facility requires us 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 us to comply with certain non-financial covenants. Subsequent to December 31, 2015, we requested and received a waiver from the lender group to extend the deadline for compliance of a non-financial covenant to March 1, 2016. We expect to remain in compliance with the debt covenants, however, no assurances can be provided that we will continue to remain in compliance with the debt covenants. Our obligations under the credit facility are secured by substantially all of our assets, excluding our intellectual property. As of December 31, 2015, we had no outstanding borrowings under the Senior Facility.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Net cash provided by (used in):			
Operating activities	$ 109,157	$ 18,774	$ 33,171
Investing activities	(170,027)	(24,185)	(9,834)
Financing activities	401,053	119,264	45,243
Net change in cash and cash equivalents	$ 340,183	$ 113,853	$ 68,580

Cash Flows from Operating Activities

Net cash provided by operating activities of $109.2 million for 2015 was primarily due to net income of $175.7 million and non-cash adjustments of $44.5 million, partially offset by a decrease in net change in operating assets and liabilities of $111.1 million. Non-cash adjustments primarily consisted of the revaluation of the redeemable convertible preferred stock warrant liability, stock-based compensation expense, and depreciation and amortization, partially offset by deferred taxes and excess tax benefits from stock-based compensation. The decrease in net change in operating assets and liabilities was primarily due to a $231.1 million increase in accounts receivable due to increased sales in the fourth quarter of 2015, and a $68.1 million increase in inventories as a result of increased product demand, partially offset by a $195.5 million increase in accounts payable and accrued liabilities related to growth of expenditures to support general business growth. Our days sales outstanding in accounts receivable, calculated as the number of days of revenue represented by the accounts receivable balance as of period end, increased from 48 days as of December 31, 2014 to 56 days as of December 31, 2015 due to higher sales in the beginning of the fourth quarter of 2015 compared to higher sales at the end of the fourth quarter of 2014.

Net cash provided by operating activities of $18.8 million for 2014 was primarily due to net income of $131.8 million, partially offset by a decrease in net change in operating assets and liabilities of $102.8 million, and non-cash adjustments of $10.2 million. The decrease in net change in operating assets and liabilities was primarily due to a $158.8 million increase in accounts receivable due to increased sales in the fourth quarter of 2014 as a result of increased product demand, a $61.6 million increase in inventories as a result of a decrease in inventory turnover during 2014 primarily due to increased inventory levels for new products announced in the fourth quarter of 2014, and a $60.5 million decrease in Fitbit Force recall liabilities, partially offset by a $171.5 million increase in accounts payable and accrued liabilities and other liabilities related to growth of expenditures to support general business growth. Non-cash adjustments primarily consisted of deferred taxes, partially offset by the revaluation of the redeemable convertible preferred stock warrant liability.

Net cash provided by operating activities of $33.2 million for 2013 was primarily due to an increase in net change in operating assets and liabilities of $64.0 million and non-cash adjustments of $20.8 million, partially offset by a net loss of $51.6 million. The increase in net change in operating assets and liabilities was primarily due to a $77.9 million increase in accounts payable and accrued liabilities and other liabilities related to growth of expenditures to support general business growth, and a $72.7 million increase in Fitbit Force recall liabilities, partially offset by a $55.6 million increase in accounts receivable due to increased sales in the fourth quarter of 2013 as a result of increased product demand, and a $47.4 million increase in inventories driven by higher levels of inventory to support demand. Non-cash adjustments primarily consisted of provisions for inventory obsolescence related to the Fitbit Force recall and the revaluation of the redeemable convertible preferred stock warrant liability.

Cash Flows from Investing Activities

Cash used in investing activities for 2015 of $170.0 million was due to the purchases of marketable securities of $230.9 million, purchases of property and equipment of $30.6 million, and the cash portion of the acquisition of FitStar of $11.0 million, net of cash acquired, partially offset by the sale and maturities of marketable securities of $102.5 million.

Cash used in investing activities for 2014 of $24.2 million was due to $26.5 million used for purchases of property and equipment, partially offset by a decrease of $2.3 million in restricted cash related to operating lease obligations.

Cash used in investing activities for 2013 of $9.8 million was due to $7.5 million used for purchases of property and equipment, and a $2.3 million increase in restricted cash related to our operating lease obligations.

In March 2015, we acquired FitStar for total consideration of $32.5 million, comprised of $13.3 million of common stock, $11.5 million of cash, and $7.7 million of contingent consideration. We determined the fair market value of the contingent consideration, according to which we would have been obligated to issue additional common stock or pay cash, to be $7.7 million as of the acquisition date. We did not pay any contingent consideration as certain market-based events were not satisfied. We may continue to use cash in the future to acquire businesses and technologies that enhance and expand our product offerings. Due to the nature of these transactions, it is difficult to predict the amount and timing of such cash requirements to complete such transactions. We may be required to raise additional funds to complete future acquisitions.

Cash Flows from Financing Activities

Cash provided by financing activities for 2015 of $401.1 million was primarily related to proceeds from our public stock offerings of $505.3 million and excess tax benefits of $32.1 million from stock compensation, partially offset by net repayments of borrowings of $134.5 million under our credit facilities.

Cash provided by financing activities for 2014 of $119.3 million was primarily related to net borrowings of $119.1 million under our credit facilities.

Cash provided by financing activities for 2013 of $45.2 million primarily consisted of net proceeds of $42.8 million related to the issuance of our convertible preferred stock and net borrowings of $2.2 million under our credit facilities as well as proceeds from the issuance of common stock upon exercise of stock options of $0.2 million.

Contractual Obligations and Other Commitments

The following table summarizes our non-cancelable contractual obligations as of December 31, 2015:

	Payments Due By Period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
			(in thousands)		
Operating leases (1)	$ 143,624	$ 16,843	$ 40,660	$ 34,101	$ 52,020
Total	$ 143,624	$ 16,843	$ 40,660	$ 34,101	$ 52,020

(1) We lease our facilities under long-term operating leases, which expire at various dates through July 2024. The lease agreements frequently include provisions which require us to pay taxes, insurance, or maintenance costs.

Purchase orders or contracts for the purchase of certain goods and services are not included in the preceding table. The aggregate amount of purchase orders open as of December 31, 2015 was approximately $452.4 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. Our purchase orders are based on our current needs and are fulfilled by our suppliers, contract manufacturers, and logistics providers within short periods of time. We subcontract with other companies to manufacture our products. 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.

The table above excludes the liability for uncertain tax positions of $22.1 million as of December 31, 2015, due to the uncertainty of when the related tax settlements will become due.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Critical Accounting Polices and Estimates

Our management’s discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these 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. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's estimates, assumptions, and judgments.

Revenue Recognition

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 services. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is reasonably assured. We consider delivery of our products to have occurred once title and risk of loss has been transferred. For customers where transfer of risk of loss is at the customer's destination, we use estimates to defer sales at the end of the reporting period based on historical experience of average transit time. We recognize revenue, net of estimated sales returns, sales incentives, discounts, and sales tax. We generally recognize revenue for products sold through retailers and distributors on a sell-in basis.

We enter into multiple element arrangements that include hardware, software, and services. The first deliverable is the hardware and firmware essential to the functionality of our connected health and fitness devices delivered at the time of sale. The second deliverable is the software services included with the products, which are provided free of charge and enables users to sync, view, and access real-time data on our online dashboard and mobile apps. The third deliverable is the embedded right included with the purchase of the device to receive, on a when-and-if-available basis, future unspecified firmware upgrades and features relating to the product's essential firmware. Commencing in the first quarter of 2015, we began accounting for the embedded right as a separate unit of accounting, which is when we believe, through public announcements, we had created an implied obligation to, from time to time, provide future unspecified firmware upgrades and features to the firmware to improve and add new functionality to our health and fitness devices. In addition, we occasionally offer a fourth deliverable in bundled arrangements that allows access to certain subscription-based services related to our FitStar offering.

We allocate revenue to all deliverables based on their relative selling prices. We use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence, or VSOE, of fair value, (ii) third-party evidence, or TPE, and (iii) best estimate of the selling price, or BESP, of selling price. Our process for determining BESP considers multiple factors including consumer behaviors and our internal pricing model and may vary depending upon the facts and circumstances related to each deliverable. BESP for our connected health and fitness devices and unspecified upgrade rights reflect our best estimate of the selling prices if they were sold regularly on a stand-alone basis and comprises the majority of the arrangement consideration. BESP for upgrade rights currently ranges from $1 to $3. TPE for our online dashboard and mobile apps is currently estimated at $0.99. VSOE for access to FitStar subscription-based services is based on the price charged when sold separately.

Amounts allocated to the delivered health and fitness devices are recognized at the time of delivery, provided the other conditions for revenue recognition have been met. Amounts allocated to our online dashboard and mobile apps and unspecified upgrade rights are deferred and recognized on a straight-line basis over the estimated usage period of approximately eight to thirteen months.

We offer our users the ability to purchase subscription-based services, through which our users receive incremental features, including access to a digital personal trainer, in-depth analytics regarding the user's personal metrics, or video-based customized workouts. Amounts paid for subscriptions are deferred and recognized ratably over the service period which is typically one year. Revenue from subscription-based premium services was less than 1% of revenue for all periods presented.

In addition, we offer access to software and services to certain customers in the corporate wellness program, which includes distribution capabilities, a real-time dashboard, and support services. We are currently unable to establish VSOE or TPE for the corporate wellness software and services. BESP for the corporate wellness software and services is determined based on our internal pricing model for anticipated renewals for existing customers and pricing for new customers. Revenue allocated to the corporate wellness software and services is deferred and recognized on a straight-line basis over the estimated access period of one year, which is the typical service period. Revenue from the corporate wellness software and services was less than 1% of revenue for all periods presented.

We account for shipping and handling fees billed to customers as revenue. Sales taxes and value added taxes collected from customers are remitted to governmental authorities, are not included in revenue, and are reflected as a liability on our consolidated balance sheets.

Rights of Return, Stock Rotation Rights, and Price Protection

We offer limited rights of return, stock rotation rights, and price protection under various policies and programs with our retailer and distributor customers and end-users. Below is a summary of the general provisions of such policies and programs:

- Certain retailers and distributors are allowed to return products that were originally sold through to an end-user, called “open box” returns, and such returns may be made at any time after original sale.
- All purchases through Fitbit.com are covered by a 45-day right of return.
- Distributors are allowed stock rotation rights which are limited rights of return of products purchased during a prior period, generally one quarter.
- Distributors and retailers are allowed return rights for defective products.
- Certain distributors are offered price protection that allows for the right to a partial credit for unsold inventory held by the distributor if we reduce the selling price of a product.

We meet all conditions required to recognize revenue at the time of sale when a right of return exists. For example, our price to the buyer is fixed or determinable at time of sale; the buyer’s obligation to pay is not contingent on resale of the product; and we are able to reasonably estimate the amount of future returns. We estimate and record reserves for these policies and programs as a reduction of revenue and accounts receivable. On a quarterly basis, the amount of revenue that is reserved for future returns is calculated based on historical trends and data specific to each reporting period. We review the actual returns evidenced in prior quarters as a percent of related revenue to determine the historical returns rate. We then apply the historical rate of returns to the current period revenue as a basis for estimating future returns. Through December 31, 2015, actual returns have primarily been open-box returns. In addition, through December 31, 2015, we have had minimal stock rotation or price protection claims. When necessary, we also provide a specific reserve for products in the distribution channel in excess of estimated requirements. This estimate can be affected by the amount of a particular product in the channel, the rate of sell-through, product plans, and other factors. We also consider whether there are circumstances which may result in anticipated returns higher than the historical return rate from direct customers and record an additional reserve as necessary.

Sales Incentives

We offer sales incentives such as cooperative advertising and marketing development fund programs, rebates, and other incentives. We record cooperative advertising and marketing development fund programs with customers as a reduction to revenue unless we receive an identifiable benefit in exchange for credits claimed by the customer and can reasonably estimate the fair value of the identifiable benefit received, in which case we will record it as a marketing expense. We recognize a liability with a reduction to revenue for rebates or other incentives based on the estimated amount of rebates or credits that will be claimed by customers.

Inventories

Inventories consist of finished goods and component parts, which are purchased from contract manufacturers and component suppliers. Inventories are stated at the lower of cost or market on a first-in, first-out basis. We assess the valuation of inventory and periodically write down the value for estimated excess and obsolete inventory based upon estimates of future demand and market conditions.

Product Warranty

We offer a standard product warranty that our products will operate under normal use for a period of one-year from the date of original purchase, except in the European Union where we provide a two-year warranty. We have the obligation, at our option, to either repair or replace the defective product. At the time revenue is recognized, an estimate of future warranty costs is recorded as a component of cost of revenues. Factors that affect the warranty obligation include product failure rates, service delivery costs incurred in correcting the product failures, and warranty policies. The warranty obligation does not consider historical experience of the Fitbit Force product as a separate reserve has been established for the Fitbit Force recall. Our products are manufactured by contractor manufacturers, and in certain cases, we may have recourse to such contract manufacturers.

Fitbit Force Product Recall

We established reserves for the Fitbit Force recall when circumstances giving rise to the recall became known. We considered various factors in estimating the product recall exposure. These include estimates for:

- refunds and product returns from retailer and distributor customers and end-users, which were charged to revenue and cost of revenue on the consolidated statements of operations;
- 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 by our contract

manufacturers, write-offs of tooling and manufacturing equipment, which were charged to cost of revenue on the consolidated statements of operations; and

- legal fees and settlement costs, which were charged to general and administrative expenses on the consolidated statements of operations.

These factors above are updated and reevaluated each period and the related reserves are adjusted when factors indicate that the recall reserves are either insufficient to cover or exceed the estimated product recall expenses.

Business Combinations, Goodwill, and Intangible Assets

We allocate the fair value of purchase consideration to tangible assets, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is allocated to goodwill. The allocation of the purchase consideration requires management to make significant estimates and assumptions, especially with respect to intangible assets. These estimates can include, but are not limited to, future expected cash flows from acquired customers, acquired technology, and trade names from a market participant perspective, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

We assess goodwill for impairment at least annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Consistent with our determination that we have one reporting segment, we have determined that there is one reporting unit and test goodwill for impairment at the entity level. We test goodwill using the two-step process in accordance with ASC 350, *Intangibles—Goodwill and Other* . In the first step, we compare the carrying amount of the reporting unit to the fair value based on the fair value of our common stock. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, we would compare the implied fair value of the goodwill, as defined by ASC 350, to its carrying amount to determine the amount of impairment loss, if any.

Acquired finite-lived intangible assets are amortized over their estimated useful lives. We evaluate the recoverability of our intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. We have not recorded any such impairment charge during the years presented.

Income Taxes

We utilize the asset and liability method of accounting for income taxes, which requires the recognition of deferred tax assets and liabilities for expected future consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities using enacted tax rates. We make estimates, assumptions, and judgments to determine our expense (benefit) for income taxes and also for deferred tax assets and liabilities and any valuation allowances recorded against our deferred tax assets. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance.

The calculation of our income tax expense involves the use of estimates, assumptions, and judgments while taking into account current tax laws, our interpretation of current tax laws, and possible outcomes of future tax audits. We have established reserves to address potential exposures related to tax positions that could be challenged by tax authorities. Although we believe our estimates, assumptions, and judgments to be reasonable, any changes in tax law or our interpretation of tax laws and the resolutions of potential tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

The calculation of our deferred tax asset balance involves the use of estimates, assumptions, and judgments while taking into account estimates of the amounts and type of future taxable income. Actual future operating results and the underlying amount and type of income could differ materially from our estimates, assumptions, and judgments, thereby impacting our financial position and operating results.

We include interest and penalties related to unrecognized tax benefits within income tax expense. Interest and penalties related to unrecognized tax benefits have been recognized in the appropriate periods presented.

Stock-Based Compensation

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award.

Determining the fair value of stock-based awards at the grant date requires judgment. The fair value of restricted stock units, or RSUs, is the fair value of our common stock on the grant date. We use the Black-Scholes option-pricing model to determine the fair value of stock options and shares issued under our 2015 Employee Stock Purchase Plan, or 2015 ESPP. The determination of the grant date fair value of stock options and shares issued under our 2015 ESPP using an option-pricing model is affected by our estimated common stock fair value as well as assumptions regarding a number of variables. These variables include the fair value of our common stock, our expected common stock price volatility over the expected life of the options, expected term of the stock option, risk-free interest rates, and expected dividends, which are estimated as follows:

Fair Value of Our Common Stock . Prior to our initial public offering, the fair value of the shares of common stock underlying stock options was historically established by our board of directors, which was responsible for these estimates, and was based in part upon a valuation provided by an independent third-party valuation firm. Because there was no public market for our common stock prior to our initial public offering, our board of directors considered this independent valuation and other factors, including, but not limited to, revenue growth, the current status of the technical and commercial success of our operations, our financial condition, the stage of our development, and competition to establish the fair value of our common stock at the time of grant of the option. The fair value of the underlying common stock was determined by the board of directors until our common stock was listed on a stock exchange. For stock options and RSUs granted subsequent to our initial public offering, the fair value was based on the closing price of our Class A common stock as reported on the New York Stock Exchange on the date of grant.

Expected Term . The expected term represents the period over which we anticipate stock-based awards to be outstanding. We do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time stock-based awards have been exercisable. As a result, for stock options, we used the simplified method to calculate the expected term estimate based on the vesting and contractual terms of the option. Under the simplified method, the expected term is equal to the average of the stock-based award's weighted average vesting period and its contractual term. The expected term of equity awards issued under our 2015 ESPP is the contractual term.

Volatility . Expected volatility is a measure of the amount by which the stock price is expected to fluctuate. We estimate the expected volatility of the common stock underlying our stock options and equity awards issued under our 2015 ESPP at the grant date by taking the average historical volatility of the common stock of a group of comparable publicly traded companies over a period equal to the expected life. We use this method because we have limited information on the volatility of our Class A common stock because of our short trading history.

Risk-Free Rate . The risk-free interest rate is estimated average interest rate based on U.S. Treasury zero-coupon notes with terms consistent with the expected term of the awards.

Dividend Yield . We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. Consequently, we used an expected dividend yield of zero.

In addition, we are required to estimate the amount of stock-based compensation we expect to be forfeited based on our historical experience. The assumptions used in calculating the fair value of the stock-based awards represent management judgment. As a result, if factors change and different assumptions are used, the stock-based compensation expense could be materially different in the future.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update 2014-09, or ASU 2014-09, regarding Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* . This ASU 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 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 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 us 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. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* . This ASU requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. We early adopted this accounting standard retrospectively in our fourth quarter of 2015 and reclassified all our current deferred tax assets to noncurrent deferred tax assets on our consolidated balance sheets for all periods presented.

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 us on January 1, 2019, and requires adoption using a modified retrospective approach. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Item 7A. 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 December 31, 2015, we had cash and cash equivalents of $535.8 million and marketable securities of $128.6 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 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. However, we believe that the exposure to foreign currency fluctuation from operating expenses is relatively small at this time as the related costs do not constitute a significant portion of our total expenses.

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 $346.6 million and $34.9 million in cash flow hedges for forecasted revenue and expense transactions, respectively, as of December 31, 2015. We had outstanding balance sheet hedges with a total notional amount of $47.2 million as of December 31, 2015. 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. Based on transactions denominated in currencies other than respective functional currencies, a hypothetical change of 10% would have resulted in an impact on income before income taxes of approximately $30.0 million for 2015.

Item 8. Financial Statements and Supplementary Data

FITBIT, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Fitbit, Inc.:

In our opinion, the accompanying Consolidated Balance Sheets and the related Consolidated Statements of Operations, Comprehensive Income (Loss), Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit), and Cash Flows present fairly, in all material respects, the financial position of Fitbit, Inc. and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, in 2015 the Company changed the manner in which it classifies deferred taxes in the consolidated balance sheets.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
February 26, 2016

FITBIT, INC.
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 535,846	$ 195,626
Marketable securities	128,632	—
Accounts receivable, net	469,260	238,859
Inventories	178,146	115,072
Prepaid expenses and other current assets	43,530	13,614
Total current assets	1,355,414	563,171
Property and equipment, net	44,501	26,435
Goodwill	22,157	—
Intangible assets, net	12,216	—
Deferred tax assets	83,020	42,001
Other assets	1,758	1,444
Total assets	$ 1,519,066	$ 633,051
Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 260,842	$ 195,666
Accrued liabilities	194,977	70,940
Deferred revenue	44,448	9,009
Fitbit Force recall reserve	5,122	22,476
Income taxes payable	2,868	30,631
Long-term debt, current portion	—	132,589
Total current liabilities	508,257	461,311
Other liabilities	29,358	12,867
Redeemable convertible preferred stock warrant liability	—	15,797
Total liabilities	537,615	489,975
Commitments and contingencies (Note 8)		
Redeemable convertible preferred stock, $0.0001 par value: no shares and 144,528,912 shares authorized as of December 31, 2015 and 2014, respectively; no shares and 139,851,483 shares issued and outstanding as of December 31, 2015 and 2014, respectively; aggregate liquidation preference of $0 as of December 31, 2015	—	67,814
Stockholders' equity:		
Common stock, $0.0001 par value, no shares and 230,400,000 shares authorized as of December 31, 2015 and 2014, respectively; no shares and 40,875,583 shares issued and outstanding as of December 31, 2015 and 2014, respectively	—	4
Class A common stock, $0.0001 par value, 600,000,000 and no shares authorized as of December 31, 2015 and 2014, respectively; 99,416,351 and no shares issued and outstanding as of December 31, 2015 and 2014, respectively	10	—
Class B common stock, $0.0001 par value, 350,000,000 and no shares authorized as of December 31, 2015 and 2014, respectively; 115,365,222 and no shares issued and outstanding as of December 31, 2015 and 2014, respectively	11	—
Additional paid-in capital	737,820	7,979
Accumulated other comprehensive income	691	37
Retained earnings	242,919	67,242
Total stockholders' equity	981,451	75,262
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 1,519,066	$ 633,051

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

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

	Year Ended December 31,		
	2015	2014	2013
Revenue	$ 1,857,998	$ 745,433	$ 271,087
Cost of revenue	956,935	387,776	210,836
Gross profit	901,063	357,657	60,251
Operating expenses:			
Research and development	150,035	54,167	27,873
Sales and marketing	332,741	112,005	26,847
General and administrative	77,793	33,556	14,485
Change in contingent consideration	(7,704)	—	—
Total operating expenses	552,865	199,728	69,205
Operating income (loss)	348,198	157,929	(8,954)
Interest expense, net	(1,019)	(2,222)	(1,082)
Other expense, net	(59,230)	(15,934)	(3,649)
Income (loss) before income taxes	287,949	139,773	(13,685)
Income tax expense	112,272	7,996	37,937
Net income (loss)	175,677	131,777	(51,622)
Less: noncumulative dividends to preferred stockholders	(2,526)	(5,326)	—
Less: undistributed earnings to participating securities	(59,133)	(98,103)	—
Net income (loss) attributable to common stockholders—basic	114,018	28,348	(51,622)
Add: adjustments for undistributed earnings to participating securities	8,821	10,175	—
Net income (loss) attributable to common stockholders—diluted	$ 122,839	$ 38,523	$ (51,622)
Net income (loss) per share attributable to common stockholders:			
Basic	$ 0.88	$ 0.70	$ (1.32)
Diluted	$ 0.75	$ 0.63	$ (1.32)
Shares used to compute net income (loss) per share attributable to common stockholders:			
Basic	129,886	40,351	39,179
Diluted	164,213	61,179	39,179

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

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

	Year Ended December 31,		
	2015	2014	2013
Net income (loss)	$ 175,677	$ 131,777	$ (51,622)
Other comprehensive income:			
Cash flow hedges:			
Change in unrealized gain on cash flow hedges, net of tax expense of $1,509, $ —, and $ —, respectively	1,276	—	—
Less reclassification for realized net gains included in net income, net of tax expense of $759, $ —, and $ —, respectively	(525)	—	—
Net change, net of tax	751	—	—
Available-for-sale investments:		—	—
Change in unrealized loss on investments	(63)	—	—
Less reclassification for realized net gains included in net income	8	—	—
Net change, net of tax	(55)	—	—
Change in foreign currency translation adjustment, net of tax	(42)	37	—
Comprehensive income (loss)	$ 176,331	$ 131,814	$ (51,622)

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

FITBIT, INC.
Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
(In thousands except share amounts)

	Redeemable Convertible Preferred Stock		Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance at December 31, 2012	110,354,028	$ 23,425	36,856,749	$ 4	$ 202	$ —	$ (12,913)	$ (12,707)
Issuance of redeemable convertible preferred stock for cash, net of issuance costs	29,149,887	42,811	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	3,283,410	—	205	—	—	205
Stock-based compensation expense	—	—	—	—	620	—	—	620
Excess tax benefit from stock-based compensation	—	—	—	—	38	—	—	38
Net loss	—	—	—	—	—	—	(51,622)	(51,622)
Balance at December 31, 2013	139,503,915	66,236	40,140,159	4	1,065	—	(64,535)	(63,466)
Issuance of redeemable convertible preferred stock upon exercise of redeemable convertible preferred stock warrants	347,568	1,578	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	735,424	—	97	—	—	97
Stock-based compensation expense	—	—	—	—	6,804	—	—	6,804
Excess tax benefit from stock-based compensation	—	—	—	—	13	—	—	13
Net income	—	—	—	—	—	—	131,777	131,777
Other comprehensive income	—	—	—	—	—	37	—	37
Balance at December 31, 2014	139,851,483	67,814	40,875,583	4	7,979	37	67,242	75,262

FITBIT, INC.
Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit) (Continued)
(In thousands except share amounts)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Issuance of common stock upon public offerings, net of offering costs	—	—	25,387,500	3	499,102	—	—	499,105
Issuance of redeemable convertible preferred stock upon net exercise of redeemable convertible preferred stock warrants	1,485,583	56,678	—	—	—	—	—	—
Conversion of redeemable convertible preferred stock to common stock upon initial public offering	(141,337,066)	(124,492)	141,337,066	14	124,478	—	—	124,492
Reclassification of redeemable convertible preferred stock warrant liability into additional paid in capital upon initial public offering	—	—	—	—	15,774	—	—	15,774
Issuance of common stock upon exercise of stock options	—	—	5,396,591	—	4,018	—	—	4,018
Issuance of common stock in connection with acquisition	—	—	1,059,688	—	13,317	—	—	13,317
Issuance of common stock subject to vesting in connection with acquisition	—	—	308,216	—	—	—	—	—
Issuance of common stock upon net exercise of common stock warrants	—	—	416,929	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	41,052	—	—	41,052
Excess tax benefit from stock-based compensation	—	—	—	—	32,100	—	—	32,100
Net income	—	—	—	—	—	—	175,677	175,677
Other comprehensive income	—	—	—	—	—	654	—	654
Balance at December 31, 2015	—	$ —	214,781,573	$ 21	$ 737,820	$ 691	$ 242,919	$ 981,451

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

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

	Year Ended December 31,		
	2015	2014	2013
Cash Flows from Operating Activities			
Net income (loss)	$ 175,677	$ 131,777	$ (51,622)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for doubtful accounts	1,115	864	651
Provision for inventory obsolescence	5,060	2,964	1,099
Provision for inventory obsolescence related to Fitbit Force recall	—	—	10,251
Depreciation	19,405	6,131	3,012
Amortization of intangible assets	1,702	—	—
Write-off of property and equipment	1,206	1,004	1,712
Revaluation of redeemable convertible preferred stock warrant liability	56,655	13,272	3,370
Amortization of issuance costs and discount on debt	961	795	82
Stock-based compensation	41,024	6,804	620
Change in contingent consideration	(7,704)	—	—
Deferred income taxes	(42,538)	(42,001)	—
Excess of tax benefit from stock-based compensation	(32,100)	(13)	(38)
Other	(263)	—	—
Changes in operating assets and liabilities, net of acquisition:			
Accounts receivable	(231,100)	(158,788)	(55,630)
Inventories	(68,108)	(61,595)	(47,376)
Prepaid expenses and other assets	(29,215)	(9,679)	(2,225)
Fitbit Force recall reserve	(17,354)	(60,462)	72,687
Accounts payable	56,759	123,761	50,881
Accrued liabilities and other liabilities	138,748	47,733	27,043
Deferred revenue	34,891	3,403	859
Income taxes payable	4,336	12,804	17,795
Net cash provided by operating activities	109,157	18,774	33,171
Cash Flows from Investing Activities			
Change in restricted cash	—	2,310	(2,310)
Purchase of property and equipment	(30,566)	(26,495)	(7,524)
Purchase of marketable securities	(230,935)	—	—
Sales of marketable securities	58,011	—	—
Maturities of marketable securities	44,500	—	—
Acquisitions, net of cash acquired	(11,037)	—	—
Net cash used in investing activities	(170,027)	(24,185)	(9,834)
Cash Flows from Financing Activities			
Proceeds from public offerings, net of underwriting discounts and commissions	505,275	—	—
Proceeds from issuance of debt and revolving credit facility	160,000	163,000	2,830
Repayment of debt	(294,503)	(41,346)	(596)
Payment of issuance costs	(748)	(2,575)	(45)
Payment of offering costs	(5,089)	—	—
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	—	—	42,811
Proceeds from exercise of stock options	4,018	97	205
Excess of tax benefit from stock-based compensation	32,100	13	38
Proceeds from exercise of redeemable convertible preferred stock warrants	—	75	—
Net cash provided by financing activities	401,053	119,264	45,243

Net increase in cash and cash equivalents		340,183		113,853		68,580
Effect of exchange rate on cash and cash equivalents		37		45		—
Cash and cash equivalents at beginning of period		195,626		81,728		13,148
Cash and cash equivalents at end of period	$	535,846	$	195,626	$	81,728
Supplemental Disclosure						
Cash paid for interest	$	1,157	$	835	$	999
Cash paid for income taxes	$	150,923	$	34,616	$	12,930
Supplemental Disclosure of Non-Cash Investing and Financing Activity						
Conversion of redeemable convertible preferred stock into Class B common stock	$	124,492	$	—	$	—
Reclassification of redeemable convertible preferred stock warrant liability to additional paid in capital	$	15,774	$	—	$	—
Issuance of redeemable convertible preferred stock upon net exercise of redeemable convertible preferred stock warrants	$	56,678	$	—	$	—
Purchase of property and equipment included in accounts payable	$	10,534	$	2,492	$	1,904
Issuance of redeemable convertible preferred stock warrants in connection with debt financing	$	—	$	—	$	170
Deferred offering costs included in accounts payable and accruals	$	1,080	$	—	$	—
Issuance of common stock in connection with acquisitions	$	13,317	$	—	$	—
Contingent consideration related to acquisitions	$	(7,704)	$	—	$	—

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

FITBIT, INC.
Notes to Consolidated Financial Statements

1. Business Overview

Fitbit, Inc. (the "Company") 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. The Company sells devices through diversified sales channels that include distributors, retailers, a corporate wellness offering, and Fitbit.com. The Company was incorporated in Delaware in 2007. The Company has established wholly-owned subsidiaries globally and its corporate headquarters are located in San Francisco, California.

In June 2015, the Company completed its initial public offering ("IPO") of Class A common stock, in which the Company sold 22,387,500 shares and certain of its stockholders sold 19,673,750 shares, for which the Company did not receive any proceeds, including 5,486,250 shares pursuant to the underwriters' option to purchase additional shares. The shares were sold at an initial public offering price of $20.00 per share for net proceeds of $420.9 million to the Company, after deducting underwriting discounts and commissions of $26.9 million . Offering costs incurred by the Company were approximately $5.0 million . In addition, in connection with the IPO:

- The Company authorized two new classes of common stock— Class A common stock and 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.
- All shares of the then-outstanding common stock, as well as options to purchase common stock and restricted stock units ("RSUs"), were reclassified into the right to receive an equivalent number of shares of Class B common stock.
- All 139,851,483 shares of the then-outstanding redeemable convertible preferred stock were converted and reclassified into an equivalent number of shares of Class B common stock. This resulted in a reclassification of the redeemable convertible preferred stock balance of $67.8 million to additional paid-in capital.
- The Company issued 274,992 shares of Series B redeemable convertible preferred stock and 1,210,591 shares of Series C redeemable convertible preferred stock upon the net exercise of redeemable convertible preferred stock warrants, which occurred immediately prior to the completion of its IPO. These shares were converted into and then sold as Class A common stock by the selling stockholders in the IPO. As a result, the Company revalued the warrants settled upon exercise as of the completion of the IPO and reclassified $ 56.7 million from the redeemable convertible preferred stock warrant liability balance to additional paid-in capital. In addition, all of the remaining outstanding redeemable convertible preferred stock warrants automatically converted to Class B common stock warrants upon the closing of the IPO. As a result, the Company revalued the warrants as of the completion of the IPO and reclassified the remaining redeemable convertible preferred stock warrant liability balance of $15.8 million to additional paid-in capital.
- The Company recorded proceeds of $420.9 million to additional paid-in capital and reclassified $5.0 million of deferred offering costs previously recorded in other current assets as an offset to the proceeds from the IPO.

In November 2015, the Company completed a follow-on offering of Class A common stock, in which the Company sold 3,000,000 shares and certain of its stockholders sold 16,550,000 shares, for which the Company did not receive any proceeds, including 2,550,000 shares pursuant to the underwriters' option to purchase additional shares. The shares were sold at a public offering price of $29.00 per share for net proceeds of $84.4 million to the Company, after deducting underwriting discounts and commissions of $2.6 million . Offering costs incurred by the Company were approximately $1.2 million .

2. Basis of Presentation

Principles of Consolidation

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

Stock Splits

In June 2013, the Company effected a 4 -for-1 stock split of all outstanding shares of redeemable convertible preferred stock. In addition, in September 2014, the Company effected a 2 -for-1 stock split of all outstanding shares of the Company's capital stock, including common stock and redeemable convertible preferred stock.

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

Use of Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. The estimates and assumptions made by management related to revenue recognition, accruals for the Fitbit Force recall, reserves for sales returns and incentives, reserves for warranty, valuation of stock options, fair value of warrant liability and derivative assets and liabilities, allowance for doubtful accounts, inventory valuation, 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, 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 consolidated financial statements.

Reclassifications

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* . This ASU requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The Company early adopted this standard retrospectively in its fourth quarter of 2015 and reclassified all of its current deferred tax assets to noncurrent deferred tax assets on the consolidated balance sheets for all periods presented. Within the consolidated balance sheet as of December 31, 2014, the Company reclassified $33.6 million of current deferred tax assets and $8.4 million of other assets to noncurrent deferred tax assets.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income, net of tax. Other comprehensive income refers to revenue, expenses, and gains and losses that are recorded as an element of stockholders' equity but are excluded from net income (loss). The Company's other comprehensive income consists of net unrealized gains and losses on derivative instruments accounted for as cash flow hedges, foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, and unrealized gains and losses on available-for-sale securities.

3. Significant Accounting Policies

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less from the date of purchase. Cash equivalents and marketable securities consist of money market funds, U.S. government and agency securities, commercial paper, and corporate notes and bonds.

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 in stockholders' equity. Realized gains or losses and other-than-temporary impairments, if any, on available-for-sale securities are reported in other expense, net as incurred. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. Investments are reviewed periodically to identify possible other-than-temporary impairments. No impairment loss has been recorded on the securities 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.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value on a recurring basis are categorized based upon the level of judgment associated with inputs used to measure their fair values. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

The Company estimates fair value by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 —Quoted prices in active markets for identical assets or liabilities;

Level 2 —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 for substantially the full term of the assets or liabilities; and

Level 3 —Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Foreign Currencies

The Company and certain of the Company's wholly-owned subsidiaries use the U.S. dollar as their functional currency. The Company's subsidiaries that use the U.S. dollar as their functional currency remeasure local currency denominated monetary assets and liabilities at exchange rates in effect at the end of each period, and inventories, property, plant and equipment and other nonmonetary assets and liabilities at historical rates. Gains and losses from these remeasurements have been included in the Company's operating results within other expense, net. Local currency transactions of these international operations are remeasured into U.S. dollars at the rates of exchange in effect at the date of the transaction. Foreign currency transaction losses were $ 2.6 million , $2.7 million , and $0.2 million for 2015, 2014, and 2013, respectively.

The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the related period. Gains and losses from translations are recognized in foreign currency translation included in accumulated other comprehensive income (loss).

Derivative Instruments

The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivatives held by the Company that are not designated as hedges are adjusted to fair value through earnings at each reporting date. In addition, the Company enters into derivatives that are accounted for as cash flow hedges. 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 in stockholders' equity and subsequently reclassifies the gains or losses into revenue and operating expenses when the underlying hedged transactions are recognized. The Company periodically assesses the effectiveness of its cash flow hedges. The fair value of derivative assets and liabilities are included in prepaid expenses and other current assets and accrued liabilities on the consolidated balance sheets.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, accounts receivables, and derivative instruments. Cash and cash equivalents are deposited with high quality financial institutions and may, at times, exceed federally insured limits. Management believes that the financial institutions that hold the Company's deposits are financially credit worthy and, accordingly, minimal credit risk exists with respect to those balances. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal interest rate risk.

The Company's accounts receivable are derived from customers located principally in the United States. The Company maintains credit insurance for the majority of its customer balances, performs ongoing credit evaluations of its customers, and maintains allowances for potential credit losses on customers' accounts when deemed necessary. Credit losses historically have not been significant. The Company continuously monitors customer payments and maintains an allowance for doubtful accounts based on its assessment of various factors including historical experience, age of the receivable balances, and other current economic conditions or other factors that may affect customers' ability to pay.

The Company's derivative instruments expose it to credit risk to the extent that its counterparties may be unable to meet the terms of the agreements. The Company seeks to mitigate this risk by limiting counterparties to major financial institutions and by spreading the risk across several major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis.

Supplier Concentration

The Company relies on third parties for the supply and manufacture of its products, as well as third-party logistics providers. In instances where these parties fail to perform their obligations, the Company may be unable to find alternative suppliers or satisfactorily deliver its products to its customers on time, if at all.

Inventories

Inventories consist of finished goods and component parts, which are purchased from contract manufacturers and component suppliers. Inventories are stated at the lower of cost or market on a first-in, first-out basis. The Company assesses the valuation of inventory and periodically writes down the value for estimated excess and obsolete inventory based upon estimates of future demand and market conditions.

Property and Equipment, Net

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Cost of maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

The useful lives of the property and equipment are as follows:

Tooling and manufacturing equipment	One to three years
Furniture and office equipment	Three years
Purchased software	Three years
Capitalized internally-developed software	Two to three years
Leasehold improvements	Shorter of remaining lease term or ten years

Internally-Developed Software Costs

The Company capitalizes eligible costs to acquire, develop, or modify internal-use software that are incurred subsequent to the preliminary project stage. Capitalized internally-developed software costs, net, were immaterial as of December 31, 2015 and 2014.

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 the Company's research and development expenses are related to developing new products and services and improving 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.

Business Combinations, Goodwill, and Intangible Assets

The Company allocates the fair value of purchase consideration to tangible assets, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is allocated to goodwill. The allocation of the purchase consideration requires management to make significant estimates and assumptions, especially with respect to intangible assets. These estimates can include, but are not limited to, future expected cash flows from acquired customers, acquired technology, and trade names from a market participant perspective, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

The Company assesses goodwill for impairment at least annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Consistent with the determination that the Company has one reporting segment, the Company has determined that there is one reporting unit and tests goodwill for impairment at the entity level. Goodwill is tested using the two-step process in accordance with ASC 350, *Intangibles—Goodwill and Other* . In the first step, the carrying amount of the reporting unit is compared to the fair value based on the fair value of the Company's common stock. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value of the reporting unit exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, the implied fair value of the goodwill, as defined by ASC 350, is compared to its carrying amount to determine the amount of impairment loss, if any.

Acquired finite-lived intangible assets are amortized over their estimated useful lives. The Company evaluates the recoverability of intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of property and equipment and intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. The Company has not recorded any such impairment charge during the years presented.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amounts to the expected future undiscounted cash flows attributable to these assets. If it is determined that an asset is not recoverable, an impairment loss is recorded in the amount by which the carrying amount of the assets exceeds the expected discounted future cash flows arising from those assets.

Redeemable Convertible Preferred Stock Warrant Liability

The Company's redeemable convertible preferred stock warrants require liability classification and accounting as the underlying preferred stock is considered redeemable as discussed in Note 9. At initial recognition, the warrants are recorded at their estimated fair value. The warrants are subject to remeasurement at each balance sheet date, with changes in fair value recognized as a component of other expense, net. In connection with the Company's IPO, the Company remeasured the liability at the time of the IPO and then reclassified the redeemable convertible preferred stock warrant liability to additional paid-in capital as these warrants converted to Class B common stock warrants. See Note 9 for additional information. As of December 31, 2015, there were no longer any redeemable convertible preferred stock warrants or any Class B common stock warrants outstanding.

Revenue Recognition

The Company derives substantially all of its revenue from sales of connected health and fitness devices and accessories. The Company also generates a small portion of revenue from its subscription-based services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is reasonably assured. The Company considers delivery of its products to have occurred once title and risk of loss has been transferred. For customers where transfer of risk of loss is at the customer's destination, the Company uses estimates to defer sales at the end of the reporting period based on historical experience of average transit time. The Company recognizes revenue, net of estimated sales returns, sales incentives, discounts, and sales tax. The Company generally recognizes revenue for products sold through retailers and distributors on a sell-in basis.

The Company enters into multiple element arrangements that include hardware, software, and services. The first deliverable is the hardware and firmware essential to the functionality of the connected health and fitness device delivered at the time of sale. The second deliverable is the software services included with the products, which are provided free of charge and enable users to sync, view, and access real-time data on the Company's online dashboard and mobile apps. The third deliverable is the embedded right included with the purchase of the device to receive, on a when-and-if-available basis, future unspecified firmware upgrades and features relating to the product's essential firmware. Commencing in the first quarter of 2015, the Company began accounting for the embedded right as a separate unit of accounting, which is when it believes, through public announcements, it had created an implied obligation to, from time to time, provide future unspecified firmware upgrades and features to the firmware to improve and add new functionality to the health and fitness devices. In addition, the Company occasionally offers a fourth deliverable in bundled arrangements that allows access to subscription-based services related to the Company's FitStar offering.

The Company allocates revenue to all deliverables based on their relative selling prices. The Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence ("VSOE") of fair value, (ii) third-party evidence ("TPE"), and (iii) best estimate of the selling price ("BESP"). The Company's process for determining its BESP considers multiple factors including consumer behaviors and the Company's internal pricing model and may vary depending upon the facts and circumstances related to each deliverable. BESP for the health and fitness devices and unspecified upgrade rights reflect the Company's best estimate of the selling prices if they were sold regularly on a stand-alone basis and comprises the majority of the arrangement consideration. BESP for upgrade rights currently ranges from $1 to $3 . TPE for the online dashboard and mobile apps is currently estimated at $0.99 . VSOE for access to FitStar subscription-based services is based on the price charged when sold separately.

Amounts allocated to the connected health and fitness devices are recognized at the time of delivery, provided the other conditions for revenue recognition have been met. Amounts allocated to the online dashboard and mobile apps and unspecified upgrade rights are deferred and recognized on a straight-line basis over their estimated usage period of approximately eight to thirteen months.

The Company offers its users the ability to purchase subscription-based services, through which the users receive incremental features, including access to a digital personal trainer, in-depth analytics regarding the user's personal metrics, or video-based customized workouts. Amounts paid for subscriptions are deferred and recognized ratably over the service period which is typically one year. Revenue from subscription-based services was less than 1% of revenue for all periods presented.

In addition, the Company offers access to software and services to certain customers in the corporate wellness program, which includes distribution capabilities, a real-time dashboard, and support services. The Company is currently unable to establish VSOE or TPE for the corporate wellness software and services. BESP for the corporate wellness software and services is determined based on the Company's internal pricing model for anticipated renewals for existing customers and pricing for new customers. Revenue allocated to the corporate wellness software and services is deferred and recognized on a straight-line basis over the estimated access period of one year, which is the typical service period. Revenue for corporate wellness software and services was less than 1% of revenue for all periods presented.

The Company accounts for shipping and handling fees billed to customers as revenue. Sales taxes and value added taxes ("VAT") collected from customers are remitted to governmental authorities are not included in revenue, and are reflected as a liability on the consolidated balance sheets.

Rights of Return, Stock Rotation Rights, and Price Protection

The Company offers limited rights of return, stock rotation rights, and price protection under various policies and programs with its retailer and distributor customers and end-users. Below is a summary of the general provisions of such policies and programs:

- Certain retailers and distributors are allowed to return products that were originally sold through to an end user, called "open box" returns, and such returns may be made at any time after original sale.
- All purchases through Fitbit.com are covered by a 45 -day right of return.
- Distributors are allowed stock rotation rights which are limited rights of return of products purchased during a prior period, generally one quarter.
- Distributors and retailers are allowed return rights for defective products.
- Certain distributors are offered price protection that allows for the right to a partial credit for unsold inventory held by the distributor if the Company reduces the selling price of a product.

The Company meets all conditions required to recognize revenue at the time of sale when a right of return exists. For example, the price to the buyer is fixed or determinable at time of sale; the buyer's obligation to pay is not contingent on resale of the product; and the Company is able to reasonably estimate the amount of future returns. The Company estimates and records reserves for these policies and programs as a reduction of revenue and accounts receivable. On a quarterly basis, the amount of revenue that is reserved for future returns is calculated based on the Company's historical trends and data specific to each reporting period. The Company reviews the actual returns evidenced in prior quarters as a percent of related revenue to determine the historical returns rate. It then applies the historical returns rate to the current period revenue as a basis for estimating future returns. Through December 31, 2015 , actual returns have primarily been open-box returns. In addition, through December 31, 2015 , the Company has had minimal stock rotation or price protection claims. When necessary, the Company also provides a specific reserve for product in the distribution channel in excess of estimated requirements. This estimate can be affected by the amount of a particular product in the channel, the rate of sell-through, product plans, and other factors. The Company also considers whether there are circumstances which may result in anticipated returns higher than the historical return rate from direct users and records an additional reserve as necessary.

Sales Incentives

The Company offers sales incentives through various programs, consisting primarily of cooperative advertising and marketing development fund programs. The Company records advertising and marketing development fund programs with customers as a reduction to revenue unless it receives an identifiable benefit in exchange for credits claimed by the customer and can reasonably estimate the fair value of the identifiable benefit received, in which case the Company records it as a marketing expense. The Company recognizes a liability and reduces revenue for rebates or other incentives based on the estimated amount of rebates or credits that will be claimed by customers.

Cost of Revenue

Cost of revenue consists of product costs, including costs of contract manufacturers for production, shipping and handling costs, packaging, warranty replacement costs, fulfillment costs, manufacturing and tooling equipment depreciation, warehousing costs, excess and obsolete inventory write-downs, costs related to the Fitbit Force product recall, and certain allocated costs related to management, facilities, and personnel-related expenses and other expenses associated with supply chain logistics.

Advertising Costs and Point of Purchase ("POP") Displays

Costs related to advertising and promotions, excluding co-op advertising costs, are expensed to sales and marketing as incurred. Advertising and promotion expenses, including expenses for POP displays, for 2015, 2014, and 2013 were $237.0 million , $71.9 million , and $9.5 million , respectively. Co-op advertising costs are recorded as a reduction to revenue, and for 2015, 2014, and 2013 were $38.3 million , $12.7 million , and $5.7 million , respectively.

The Company provides retailers with POP displays, generally free of charge, in order to facilitate the marketing of the Company's products within retail stores. Any amounts capitalized related to the costs of the POP displays are recorded as prepaid expense on the consolidated balance sheets and recognized as expense over the expected period of the benefit provided by these assets, which is generally 12 months. The related expenses are included in sales and marketing expenses on the consolidated statements of operations.

Product Warranty

The Company offers a standard product warranty that the product will operate under normal use for a period of one year from date of original purchase except in the European Union where the Company provides a two -year warranty. The Company has the obligation, at its option, to either repair or replace the defective product.

At the time revenue is recognized, an estimate of future warranty costs is recorded as a component of cost of revenues. Factors that affect the warranty obligation include product failure rates, service delivery costs incurred in correcting the product failures, and warranty policies. The warranty obligation does not consider historical experience of the Fitbit Force product as a separate reserve has been established for the Fitbit Force recall. The Company's products are manufactured by third-party contract manufacturers, and in certain cases, the Company may have recourse to such third-party contract manufacturers.

Fitbit Force Product Recall

The Company established reserves for the Fitbit Force recall when circumstances giving rise to the recall became known. It considered various factors in estimating the product recall exposure. These include estimates for:

- refunds and product returns from retailer and distributor customers and end-users, which were charged to revenue and cost of revenue on the consolidated statements of operations;
- 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 by the Company's contract manufacturers, write-offs of tooling and manufacturing equipment, which were charged to cost of revenue on the consolidated statements of operations; and
- legal fees and settlement costs, which were charged to general and administrative expenses on the consolidated statements of operations.

These factors above are updated and reevaluated each period and the related reserves are adjusted when factors indicate that the recall reserves are either insufficient to cover or exceed the estimated product recall expenses.

Stock-Based Compensation

The Company measures its stock-based awards made to employees based on the estimated fair values of the awards as of the grant date using the Black-Scholes option-pricing model. The fair value of restricted stock units ("RSUs") is the fair value of the Company's common stock on the grant date. Stock-based compensation expense is recognized over the requisite service period on a straight-line basis and is recorded net of estimated forfeitures.

Stock-based compensation expenses for options granted to non-employees as consideration for services received are measured on the date of performance at the fair value of the consideration received or the fair value of the equity instruments issued, using the Black-Scholes option-pricing model, whichever can be more reliably measured. Stock-based compensation expenses for options granted to non-employees are remeasured as the underlying options vest.

The Company recognizes tax benefits related to stock-based compensation to the extent that the total reduction to its income tax liability from stock-based compensation is greater than the amount of the deferred tax assets previously recorded in anticipation of these benefits. The Company recognizes a benefit from stock-based compensation in equity to the extent that an incremental tax benefit is realized by following the ordering provisions of the tax laws.

Segment Information

The Company operates as one operating segment as it only reports financial information on an aggregate and consolidated basis to its Chief Executive Officer, who is the Company's chief operating decision maker.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes, which requires the recognition of deferred tax assets and liabilities for expected future consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities using enacted tax rates. The Company makes estimates, assumptions, and judgments to determine its expense for income taxes and also for deferred tax assets and liabilities and any valuation allowances recorded against its deferred tax assets. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent it believes that recovery is not likely, the Company establishes a valuation allowance.

The calculation of the Company's income tax expense involves the use of estimates, assumptions, and judgments while taking into account current tax laws, its interpretation of current tax laws, and possible outcomes of future tax audits. The Company has established reserves to address potential exposures related to tax positions that could be challenged by tax authorities. Although the Company believes its estimates, assumptions, and judgments to be reasonable, any changes in tax law or its interpretation of tax laws and the resolutions of potential tax audits could significantly impact the amounts provided for income taxes in its consolidated financial statements.

The calculation of the Company's deferred tax asset balance involves the use of estimates, assumptions, and judgments while taking into account estimates of the amounts and type of future taxable income. Actual future operating results and the underlying amount and type of income could differ materially from the Company's estimates, assumptions, and judgments, thereby impacting its financial position and operating results.

The Company includes interest and penalties related to unrecognized tax benefits within income tax expense. Interest and penalties related to unrecognized tax benefits have been recognized in the appropriate periods presented.

Net Income (Loss) 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. The Company considers its redeemable convertible preferred stock to be participating securities. The holders of the redeemable convertible preferred stock did not have a contractual obligation to share in losses. 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. 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.

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 common stock 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.

In 2013 , basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period without consideration of common stock equivalents or the participation rights of the preferred stock as they do not share in losses. As the Company was in a net loss position in 2013, basic net loss per share attributable to common stockholders is the same as diluted net loss per share attributable to common stockholders as the inclusion of all potential shares of common stock outstanding would have been anti-dilutive.

Recent Accounting Pronouncements

In May 2014, the 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 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. ASU 2014-09 is effective for annual periods beginning after December 15, 2016, including interim periods within that period. Early adoption is not permitted. The FASB recently issued an exposure draft of a proposed ASU that would delay the effective date of ASU 2014-09 by one year and allow for early adoption. 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. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* . This ASU requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The Company early adopted this accounting standard retrospectively in its fourth quarter of 2015. Within the consolidated balance sheet as of December 31, 2014, the Company reclassified $33.6 million of current deferred tax assets and $8.4 million of other assets to noncurrent deferred tax assets.

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.

4. 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 carrying value of the Company's long-term debt approximates its fair value as of December 31, 2014 , as the debt carries a variable rate or market rates currently available to the Company and other assumptions have not changed significantly.

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):

	December 31, 2015			
	Level 1	Level 2	Level 3	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	$ 248,128	$ 313,280	$ —	$ 561,408
Liabilities:				
Derivative liabilities	$ —	$ 2,640	$ —	$ 2,640

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	$ —	$ 316	$ —	$ 316
Liabilities:				
Redeemable convertible preferred stock warrant liability	$ —	$ —	$ 15,797	$ 15,797
Derivative liabilities	—	105	—	105
Total	$ —	$ 105	$ 15,797	$ 15,902

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 are comprised of derivative financial instruments associated with hedging activity is further discussed in Note 5. 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.

The Company's Level 3 liabilities measured and recorded on a recurring basis consist of the redeemable convertible preferred stock warrant liability and contingent consideration. The fair value of the warrant liability is calculated using an option-pricing model as discussed in Note 9. Generally, increases or decreases in the fair value of the underlying redeemable convertible preferred stock would result in a directionally similar impact in the fair value measurement of the associated warrant liability. The unexercised warrants to purchase redeemable convertible preferred stock were converted into warrants to purchase shares of Class B common stock upon the closing of the IPO. As a result, the Company revalued and reclassified the redeemable convertible preferred stock liability to additional paid-in capital upon the closing of the IPO. The following table sets forth a summary of the changes in the fair value of the redeemable convertible preferred stock warrant liability (in thousands):

Balance at December 31, 2012	$ 488
Fair value of redeemable convertible preferred stock warrants issued	170
Change in fair value	3,370
Balance at December 31, 2013	4,028
Settlement of warrant liability upon exercise	(1,503)
Change in fair value	13,272
Balance at December 31, 2014	15,797
Change in fair value	56,655
Settlement of warrant liability upon exercise	(56,678)
Reclassification of unexercised warrants to additional paid in capital upon the IPO	(15,774)
Balance at December 31, 2015	$ —

The Company's acquisition-related contingent consideration is determined using the Monte Carlo simulation method. The increases or decreases in the fair value of the contingent consideration payable could result from changes in the anticipated fair value of the Company's common stock, stock price volatility, and probability of various market-based scenarios. As the fair value measure is based on significant inputs that are not observable in the market, they are categorized as Level 3. For additional information on the contingent consideration, see Note 15.

The following table sets forth a summary of the changes in the fair value of the acquisition-related contingent consideration (in thousands):

Balance at December 31, 2014	$	—
Addition from acquisition		7,704
Change in fair value of contingent consideration		(7,704)
Balance at December 31, 2015	$	—

There have been no transfers between fair value measurement levels during 2014 and 2015 .

5. Financial Instruments

Cash, Cash Equivalents, and Marketable Securities

The following table sets forth the 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	$ 664,533	$ 4	$ (59)	$ 664,478	$ 535,846	$ 128,632

As of December 31, 2014, the Company did not carry any investments in marketable securities.

All available-for-sale investments as of December 31, 2015 have a contractual maturity of one year or less. The following table presents fair values and gross unrealized losses of investments that have been in an unrealized loss position for less than twelve months as of December 31, 2015 (in thousands):

	Fair Value	Gross Unrealized Losses
U.S. government agencies	$ 113,314	$ (4)
Corporate debt securities	193,964	(55)
Total	$ 307,278	$ (59)

There were no available-for-sale investments as of December 31, 2015 that have been in a continuous unrealized loss position for greater than twelve months.

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 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 expense, net. If the hedged transaction becomes probable of not occurring, the corresponding amounts in accumulated other comprehensive income would immediately be reclassified as ineffectiveness to other 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 $346.6 million and $34.9 million in cash flow hedges for forecasted revenue and expense transactions, respectively, as of December 31, 2015.

Balance Sheet Hedges

The Company enters into foreign exchange contracts to hedge 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 expense, net and offset the foreign currency gain or loss on the underlying net monetary assets or liabilities.

The notional amount of foreign currency contracts open in U.S. dollar equivalents was $47.2 million and $37.2 million as of December 31, 2015 and 2014, respectively.

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 consolidated balance sheets. The following table presents the fair value of the Company's foreign currency derivative contracts as of the dates presented (in thousands):

		December 31, 2015		December 31, 2014	
	Balance Sheet Location	**Fair Value Derivative Assets**	**Fair Value Derivative Liabilities**	**Fair Value Derivative Assets**	**Fair Value Derivative Liabilities**
Cash flow designated hedges	Prepaid expense and other current assets	$ 3,116	$ —	$ —	$ —
Cash flow designated hedges	Accrued liabilities	—	1,327	—	—
Hedges not designated	Prepaid expense and other current assets	2,886	—	316	—
Hedges not designated	Accrued liabilities	—	1,313	—	105
Total fair value of derivative instruments		$ 6,002	$ 2,640	$ 316	$ 105

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 ("OCI") and the consolidated statement of operations for the periods presented (in thousands):

	Income Statement Location	Year Ended December 31, 2015	Year Ended December 31, 2014
Foreign exchange cash flow hedges:			
Gain (loss) recognized in OCI—effective portion		$ 2,785	$ —
Gain (loss) reclassified from OCI into income—effective portion	Revenue	2,183	—
Gain (loss) reclassified from OCI into income—effective portion	Operating expenses	(899)	—
Gain (loss) recognized in income—ineffective portion	Other expense, net	202	—
Foreign exchange balance sheet hedges:			
Gain (loss) recognized in income	Other expense, net	$ 5,861	$ 211

As of December 31, 2015, 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 consolidated balance sheets. In July 2015, the Company started to enter 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 December 31, 2015 (in thousands):

	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	$ 6,002	$ —	$ 6,002	$ 2,100	$ —	$ 3,902

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

	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		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Foreign exchange contracts	$ 2,640	$ —	$ 2,640	$ 2,100		$ 540

6. Balance Sheet Components

Accounts Receivable Reserves

Changes in accounts receivable reserves were as follows (in thousands):

	Allowance for Doubtful Accounts	Revenue Reserve
Balance at December 31, 2012	$ 92	$ 3,187
Increases	651	20,307
Write-offs/returns taken	—	(8,078)
Balance at December 31, 2013	743	15,416
Increases	864	42,740
Write-offs/returns taken	(769)	(31,597)
Balance at December 31, 2014	838	26,559
Increases	1,115	169,677
Write-offs/returns taken	(128)	(122,191)
Balance at December 31, 2015	$ 1,825	$ 74,045

Inventories

Inventories consisted of the following (in thousands):

	December 31,	
	2015	2014
Components	$ 5,359	$ 53,383
Finished goods	172,787	61,689
Total inventories	$ 178,146	$ 115,072

Prepaid Expenses and Other Current Assets

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

	December 31,	
	2015	2014
Prepaid income taxes	$ 11,889	$ —
POP displays, net	9,990	7,121
Derivative assets	6,002	316
Prepaid expenses and other current assets	15,649	6,177
Total prepaid expenses and other current assets	$ 43,530	$ 13,614

Property and Equipment, Net

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

	December 31,	
	2015	2014
Tooling and manufacturing equipment	$ 53,092	$ 28,344
Furniture and office equipment	6,809	2,891
Purchased and internally-developed software	3,794	1,396
Leasehold improvements	8,388	3,594
Total property and equipment	72,083	36,225
Less: Accumulated depreciation and amortization	(27,582)	(9,790)
Property and equipment, net	$ 44,501	$ 26,435

Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for 2015 were as follows (in thousands). See Note 15 for additional information.

	Goodwill
Balance at December 31, 2014	$ —
Goodwill acquired	22,562
Subsequent goodwill adjustments	(405)
Balance at December 31, 2015	$ 22,157

There were no recognized intangible assets outstanding as of December 31, 2014. The carrying amounts of the intangible assets as of December 31, 2015 were as follows (in thousands, except useful life). See Note 15 for additional information.

	December 31, 2015			Weighted Average Remaining Useful Life (years)
	Gross	Accumulated Amortization	Net	
Developed technology	$ 12,640	$ (1,442)	$ 11,198	6.3
Trademarks and other	1,278	(260)	1,018	4.1
Total intangible assets, net	$ 13,918	$ (1,702)	$ 12,216	

Total amortization expense related to intangible assets was $1.7 million for 2015, respectively.

The estimated future amortization expense of acquired intangible assets to be charged to cost of revenue and operating expenses after 2015, is as follows (in thousands):

	Cost of Revenue	Operating Expenses	Total
2016	$ 1,806	$ 281	$ 2,087
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	$ 11,198	$ 1,018	$ 12,216

Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	December 31,	
	2015	2014
Product warranty	$ 40,212	$ 20,098
Accrued sales and marketing	33,389	154
Accrued co-op advertising and marketing development funds	29,077	7,679
Employee related liabilities	27,394	4,115
Accrued sales incentives	24,324	3,426
Accrued manufacturing expense and freight	10,723	16,229
Sales taxes and VAT payable	8,349	2,291
Inventory received but not billed	4,292	6,242
Accrued legal fees	3,138	678
Derivative liabilities	2,640	105
Customer deposits	2,062	6,391
Other	9,377	3,532
Accrued liabilities	$ 194,977	$ 70,940

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

	Reserve For Product Warranty (1)
Balance at December 31, 2012	$ 2,232
Charged to cost of revenue	9,078
Settlement of claims	(2,830)
Balance at December 31, 2013	8,480
Charged to cost of revenue	19,462
Settlement of claims	(7,844)
Balance at December 31, 2014	20,098
Charged to cost of revenue	55,642
Changes in estimate related to pre-existing warranties	(8,968)
Settlement of claims	(26,560)
Balance at December 31, 2015	$ 40,212

(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.

The changes in estimate related to pre-existing warranties resulted from a reduction in the estimated number of units to be replaced and in the estimated cost of replacement units based on additional historical experience.

Fitbit Force Recall Reserve

In March 2014, the Company announced a recall for one of its products, the Fitbit Force ("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 Force recall reserve activities were as follows (in thousands):

	Reserve For Fitbit Force Recall
Balance at December 31, 2012	$ —
Charged to revenue	30,607
Charged to cost of revenue	49,493
Charged to general and administrative	2,838
Settlement of claims	—
Balance at December 31, 2013	82,938
Charged to revenue	8,112
Charged to cost of revenue	11,339
Charged to general and administrative	505
Settlement of claims	(80,418)
Balance at December 31, 2014	22,476
Benefit to cost of revenue	(5,755)
Benefit to general and administrative	(1,174)
Settlement of claims	(10,425)
Balance at December 31, 2015	$ 5,122

During 2013, the Company recorded excess and obsolete Fitbit Force inventory-related amounts of $10.3 million , included in the reserve, and wrote-off $1.7 million for specialized Fitbit Force tooling and manufacturing equipment to cost of revenue as incurred in the consolidated statement of operations. During 2014, legal fees of $2.9 million were recognized as incurred, in addition to legal settlement costs of $0.5 million related to the Fitbit Force recall, which were included in general and administrative costs in the consolidated statement of operations. During 2015, a benefit to cost of revenue of $5.8 million was recognized due to a change in estimate of costs to fulfill Fitbit Force returns. In addition, a benefit to legal expenses of $4.4 million was recognized in general and administrative costs, of which $1.2 million was previously included in the Fitbit Force recall reserve, due to the settlement of Fitbit Force legal liabilities. See Note 8. for additional information on the legal settlement.

Accumulated Other Comprehensive Income

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

	Unrealized Gains on Cash Flow Hedges	Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Investments	Total
Balance at December 31, 2014	$ —	$ 37	$ —	$ 37
Other comprehensive income (loss) before reclassifications	1,276	(42)	(63)	1,171
Amounts reclassified from AOCI	(525)	—	8	(517)
Other comprehensive income (loss)	751	(42)	(55)	654
Balance at December 31, 2015	$ 751	$ (5)	$ (55)	$ 691

Other comprehensive income consisted only of currency translation adjustments of an immaterial amount in 2014, and there was no other comprehensive income in 2013.

7. Long-Term Debt

2012 Financing Facility

In August 2012, the Company entered into a debt agreement with Silicon Valley Bank ("SVB") with a borrowing capacity of $26.0 million consisting of a $14.0 million revolving line of credit, a $3.0 million senior term loan, and a $9.0 million mezzanine term loan facility. The revolving line of credit, senior term loan, and mezzanine term loan facility were all terminated in August 2014.

2014 Credit Agreement

In August 2014, the Company entered into an amended and restated credit agreement ("Asset-Based Credit Facility") with SVB, as administrative agent and lender, and several other lenders, including affiliates of Morgan Stanley & Co. LLC, SunTrust Robinson Humphrey, Inc., and Deutsche Bank Securities Inc . 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. The borrowing base is determined by the Company's collateral agents based on several variables, including percentages of the book value of certain eligible accounts receivable and a percentage of certain eligible inventories. Borrowings under the Asset-Based Credit Facility could be drawn as Alternate Base Rate or ABR loans or Eurodollar loans. ABR loans bore 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 bore interest at a variable rate based on the LIBOR rate and Euro currency reserve requirements. The Company was also required to pay an annual commitment fee on the average daily unused portion of the facility of 0.25% , 0.35% , or 0.45% , based on usage of the facility. As of December 31, 2014, the effective interest rate on the revolving line of credit was 4.25 %

The Asset-Based Credit Facility required the Company to comply with certain financial covenants, including maintaining a consolidated fixed charge coverage ratio of at least 1. 1 :1, consolidated leverage ratios of between 3 :1 and 2 :1, and levels of liquidity of not less than $15.0 million . The Asset-Based Credit Facility also required the Company to comply with certain non-financial covenants. The Company was in compliance with these covenants as of December 31, 2014.

As of December 31, 2014, the Company had $125.0 million of outstanding borrowings under the Asset-Based Credit Facility. In January 2015, the Company repaid $125.0 million of its indebtedness under the Asset-Based Credit Facility. 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 ("Cash Flow Facility") with an affiliate of Morgan Stanley & Co. LLC, as administrative agent and collateral agent, and several other lenders, including SVB and an affiliate of SunTrust Robinson Humphrey, Inc. In October 2014, the Company entered into an incremental joinder agreement with an affiliate of Barclays Capital, Inc., which 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. Borrowings under the Cash Flow Facility could be drawn as ABR loans or Eurodollar loans. ABR loans under our Cash Flow Facility bore interest at a variable rate equal to the applicable margin plus the highest of (i) 3.5% , (ii) the prime rate, (iii) the federal funds effective rate plus 0.5% , and (iv) the adjusted LIBOR rate plus 1.0% . Eurodollar loans under the Cash Flow Facility bore interest at a variable rate for any day based on the LIBOR rate and Euro currency reserve requirements. The Company was also required to pay an annual commitment fee on the average daily unused portion of the facility of 0.375% or 0.5% , based on usage of the facility. As of December 31, 2014, the effective interest rate on the revolving line of credit was 3.59% . The Cash Flow Facility also required the Company to comply with certain financial covenants, including maintaining certain consolidated leverage ratios of between 3 :1 and 2 :1, and other non-financial covenants.

As of December 31, 2014, the Company had $8.0 million of outstanding borrowings under the Cash Flow Facility. In March 2015, the Company repaid $8.0 million of its indebtedness under the Cash Flow Facility. 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, with Silicon Valley Bank, or SVB, as administrative agent, collateral agent, and lender, SunTrust Bank as syndication agent, SunTrust Robinson Humphrey, Inc. and several other lenders 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.

The Company has the option to repay our 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. Subsequent to December 31, 2015, the Company requested and received a waiver from the lender group to extend the deadline for compliance of a non-financial covenant to March 1, 2016. The Company expects to remain in compliance with the debt covenants, however, no assurances can be provided that the Company will continue to remain in compliance with the debt covenants. Obligations under the credit facility are secured by substantially all of our assets, excluding our intellectual property. As of December 31, 2015, there were no outstanding borrowings under the Senior Facility.

The fair value of warrants issued in connection with debt agreements prior to 2012 was recorded as a debt discount and is amortized to interest expense using the straight-line method which approximated the effective interest method over the term of the related debt agreement. In addition, capitalized issuance costs are amortized to interest expense over the term of the related financing arrangement on a straight-line basis. Interest expense for 2015, 2014, and 2013 was $1.0 million , $2.2 million , and $1.1 million , respectively.

Letters of Credit

As of December 31, 2015 and 2014, the Company had outstanding letters of credit of $17.1 million and $2.9 million , respectively, issued to cover the security deposit on the lease of its office headquarters in San Francisco, California, and other facility leases.

8. Commitments and Contingencies

Leases

The Company's principal facility is located in San Francisco, California. The Company also 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. All of Company's leases are accounted for as operating leases.

Rent expense is recorded over the lease terms on a straight-line basis. Rent expense was $8.4 million , $4.1 million , and $0.9 million for 2015, 2014, and 2013, respectively.

Future minimum payments under the leases as of December 31, 2015 were as follows (in thousands):

Year ending December 31,	Amounts
2016	$ 16,843
2017	20,825
2018	19,835
2019	18,789
2020	15,312
Thereafter	52,020
Total	$ 143,624

Purchase Commitments

The aggregate amount of purchase orders open as of December 31, 2015 was approximately $452.4 million . The Company 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. The Company's purchase orders are based on its current needs and are fulfilled by its suppliers, contract manufacturers, and logistics providers within short periods of time.

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 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 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 our 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 us (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 March 22, 2016.

On June 10, 2015, Jawbone and 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 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 our 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 the action brought against us 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 the Company and certain of its 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 Fitbit 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, and has now set a hearing on May 9-16, 2016 and a target date for completion of the investigation on 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 U.S. District Court for the District of Delaware, asserting that Jawbone's 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 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.

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. Because the Company is in the early stages of these litigation matters, the Company is unable to estimate a reasonably possible 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 is currently scheduled for March 16, 2016. The Company believes that the plaintiffs' allegations are without merit, and intend 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 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 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. The Company believes that the plaintiffs' allegations are without merit, and intend 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 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. 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 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 intend 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 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 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.

9. Redeemable Convertible Preferred Stock and Warrants

Redeemable Convertible Preferred Stock

In connection with the closing of the Company's IPO, all shares of the Company's then-outstanding redeemable convertible preferred stock automatically converted on a one -for-one basis into an aggregate of 139,851,483 shares of Class B common stock. Redeemable convertible preferred stock outstanding as of December 31, 2014 and immediately prior to the conversion into Class B common stock and December 31, 2014 consisted of the following (in thousands, except per share data):

	Shares Authorized	Shares Outstanding	Price per Share	Net Carrying Value	Liquidation Preference
Series A	10,200	10,200	$ 0.04167	$ 421	$ 425
Series A-1	22,369	22,369	0.09164	2,000	2,050
Series B	42,360	42,052	0.21580	10,533	9,075
Series C	39,600	36,080	0.33452	12,049	12,069
Series D	30,000	29,150	1.47513	42,811	43,000
Total	144,529	139,851		$ 67,814	$ 66,619

Redeemable Convertible Preferred Stock Warrants

As of December 31, 2014 and immediately prior to the completion of the IPO, the Company had the following redeemable convertible preferred stock warrants issued and outstanding (in thousands, except per share data):

Warrant Class:	Number of Shares Underlying Warrants	Fair Value	Issuance Date	Exercise Price per Share
Series B	278	2,351	June 2011	$ 0.22
Series C	57	475	April 2012	0.33
Series C	1,215	9,728	September 2012	0.67
Series C (1)	405	3,243	September 2012	0.67
Total	1,955	$ 15,797		

(1) Represents additional shares that may be exercised pursuant to the Series C redeemable convertible preferred stock warrant issued in September 2012 due to a draw down on a debt financing arrangement in March 2013.

Immediately prior to the completion of the IPO, the Company issued 274,992 shares of Series B redeemable convertible preferred stock and 1,210,591 shares of Series C redeemable convertible preferred stock upon the exercise of 277,992 and 1,251,357 of Series B and Series C redeemable convertible preferred stock warrants, respectively, after the forfeiture of 3,000 and 40,766 Series B and Series C redeemable convertible preferred stock warrants, respectively. The shares issued upon the net exercise were sold as Class A common stock in the IPO. In addition, all of the remaining outstanding redeemable convertible preferred stock warrants automatically converted to Class B common stock warrants upon closing of the IPO. As a result of the net exercise of redeemable convertible preferred stock warrants and automatic conversion of the remaining warrants to Class B common stock warrants, the Company revalued the warrants as of the completion of the IPO and reclassified the remaining redeemable convertible preferred stock warrant liability balance related to the unexercised warrants to additional paid-in capital. All remaining outstanding Class B common stock warrants were exercised subsequent to the IPO and as of December 31, 2015, there were no longer any Class B common stock warrants outstanding.

Prior to the IPO, as the redeemable convertible preferred stock warrants were exercisable into contingently redeemable preferred shares, the Company had recognized a liability for the fair value of its warrants upon issuance and subsequently remeasured the liability at the end of each reporting period. The Company estimated the fair values of the redeemable convertible preferred stock warrants using the Black-Scholes option-pricing model based on inputs as of the valuation measurement dates, including the fair values of our convertible preferred stock, the estimated volatility of the price of our convertible preferred stock, the expected term of the warrants, and the risk-free interest rates. The key assumptions used in the Black-Scholes option-pricing model for the revaluation of the redeemable convertible preferred stock warrants were as follows:

	Year Ended December 31,		
	2015	2014	2013
Expected term (in years)	0.5	0.8 – 1.3	0.6 – 6.9
Volatility	81.3%	46.7 – 54.9%	31.2 – 62.7%
Risk-free interest rate	0.1%	0.1 – 0.2%	0.1 – 2.5%
Dividend yield	—%	—%	—%

10. Stockholders' Equity

Preferred Stock

Upon completion of its IPO on June 22, 2015, the Company filed a Restated Certificate of Incorporation, which authorized the issuance of preferred stock with rights and preferences, including voting rights, designated from time to time by the board of directors. As of December 31, 2015 , there were 10,000,000 shares of preferred stock authorized with a par value of $0.0001 per share, and no shares of preferred stock issued or outstanding.

Common Stock

In connection with the IPO, the Company established two classes of authorized common stock, Class A common stock and Class B common stock. All shares of common stock outstanding immediately prior to the IPO were converted into an equivalent amount of shares of Class B common stock. As of December 31, 2015, the Company had 600,000,000 shares of Class A common stock authorized with a par value of $0.0001 per share and 350,000,000 shares of Class B common stock authorized with a par value of $0.0001 per share. As of December 31, 2015, 99,416,351 shares of Class A common stock were issued and outstanding and 115,365,222 shares of Class B common stock were issued and outstanding. As of December 31, 2014, the Company had 230,400,000 shares of common stock authorized for issuance and 40,875,583 shares issued and outstanding.

Holders of Class A common stock are entitled to one vote for each share of Class A common stock held on all matters submitted to a vote of stockholders and holders of Class B common stock are entitled to ten votes for each share of Class B common stock held on all matters submitted to a vote of stockholders. Except with respect to voting, the rights of the holders of Class A and Class B common stock are identical. Shares of Class B common stock are voluntarily convertible into shares of Class A common stock at the option of the holder and generally automatically convert into shares of our Class A common stock upon a transfer.

2007 Equity Incentive Plan

In September 2007, the Company adopted the Amended and Restated 2007 Stock Plan (the "2007 Plan"), which was most recently amended in March 2015. The 2007 Plan provides for the grant of incentive and non-statutory stock options and RSUs to employees, directors, and consultants under terms and provisions established by the board of directors. The board of directors determines the period over which the options vest and become exercisable. Options granted under the 2007 Plan are generally subject to a four -year vesting period, with 25% vesting after a one -year period and monthly vesting thereafter. Options expire after ten years. The exercise price of incentive stock options granted under the 2007 Plan must be at least equal to 100% of the fair value of the common stock at the date of grant, as determined by the board of directors. The exercise price of non-statutory options granted under the 2007 Plan must be at least equal to 85% of the fair value of the common stock at the date of grant, as determined by the board of directors. RSUs granted under the 2007 Plan are generally subject to a three - or four -year vesting period with annual vesting.

The 2015 Equity Incentive Plan (the "2015 Plan") became effective on June 16, 2015. As a result, the Company will not grant any additional stock options under the 2007 Plan and the 2007 Plan has terminated. Any outstanding stock options and RSUs granted under the 2007 Plan will remain outstanding, subject to the terms of the 2007 Plan and applicable award agreements, until such shares are issued under those awards, by exercise of stock options or settlement of RSUs, or until the awards terminate or expire by their terms. Stock options and RSUs granted under the 2007 Plan generally have terms similar to those described below with respect to stock options and RSUs granted under the 2015 Plan.

2015 Equity Incentive Plan

In May 2015, the Company's board of directors and stockholders adopted and approved the 2015 Plan. The 2015 Plan became effective on June 16, 2015 and serves as the successor to the 2007 Plan. The remaining shares available for issuance under the 2007 Plan became reserved for issuance under the 2015 Plan, and the Company ceased granting awards under the 2007 Plan. The number of shares reserved for issuance under the 2015 Plan will increase automatically on the first day of January of each year starting in 2016 through 2025 by the number of shares of Class A common stock equal to 5% of the total outstanding shares of common stock as of the immediately preceding December 31. The share reserve may also increase to the extent that outstanding awards expire or terminate un-exercised. As of December 31, 2015, 3,685,100 shares were available for grant under the 2015 Plan.

The 2015 Plan authorizes the award of stock options, restricted stock awards, stock appreciation rights, RSUs, performance awards, and stock bonuses to employees, directors, consultants, independent contractors, and advisors. In general, stock options and RSUs will vest over a four -year period, and have a maximum term of ten years. The exercise price of an option will be not less than 100% of the fair market value of the shares on the date of grant.

2015 Employee Stock Purchase Plan

In May 2015, the Company's board of directors adopted the 2015 Employee Stock Purchase Plan ("2015 ESPP"), which became effective on June 17, 2015. A total of 3,750,000 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 at a discount through payroll deductions of up to 15% of eligible compensation, subject to any plan limitations. 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.

On each purchase date, eligible employees will purchase Class A common stock at a price per share equal to 85% of the lesser of the fair market value of the Company's Class A common stock (i) on the first trading day of the applicable offering period and (ii) the last trading day of each purchase period in the applicable offering period. For the first offering period, which began on June 17, 2015, the fair market value of the Class A common stock on the offering date was $20.00 , the price at which the Company's Class A common stock was first sold to the public in its IPO, as specified in the final prospectus filed with the SEC on June 18, 2015, pursuant to Rule 424(b).

Stock Options

Activity under the 2007 Plan and 2015 Plan is as follows (in thousands except per share amounts):

	Options Outstanding		
	Number of Shares Subject to Options	Weighted–Average Exercise Price	Aggregate Intrinsic Value
Balance—December 31, 2012	20,947	$ 0.06	
Granted	6,476	0.61	
Exercised	(3,283)	0.05	$ 1,111
Canceled	(736)	0.16	
Balance—December 31, 2013	23,404	0.21	
Granted	22,094	3.25	
Exercised	(735)	0.14	$ 3,001
Canceled	(765)	0.95	
Balance—December 31, 2014	43,998	1.72	$ 207,863
Granted	6,950	10.67	
Exercised	(5,397)	0.74	$ 173,507
Canceled	(1,189)	3.21	
Balance—December 31, 2015	44,362	3.20	$ 1,171,688
Options exercisable—December 31, 2015	20,763	0.99	$ 593,810
Options vested and expected to vest—December 31, 2015	43,502	3.16	$ 1,150,881

The aggregate intrinsic values of options outstanding, exercisable, vested and expected to vest were calculated as the difference between the exercise price of the options and the estimated fair value of the Company’s common stock, as determined by the board of directors, as of December 31, 2014 and the fair value of the Class A common stock of $29.59 as of December 31, 2015.

The total grant date fair value of options that vested during 2015, 2014, 2013 was $18.6 million , $1.7 million , and $0.3 million , respectively.

Restricted Stock Units

RSU activity under the equity incentive plans is as follows:

	RSUs Outstanding	Weighted-Average Grant Date Fair Value
	(in thousands)	
Unvested balance—December 31, 2014	—	$ —
Granted	3,326	34.27
Forfeited or canceled	(34)	34.26
Unvested balance—December 31, 2015	3,292	34.27

Stock-Based Compensation Expense

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

	Year Ended December 31,		
	2015	2014	2013
Cost of revenue	$ 4,739	$ 890	$ 37
Research and development	18,251	2,350	288
Sales and marketing	7,419	1,295	204
General and administrative	10,615	2,269	91
Total stock-based compensation expense	$ 41,024	$ 6,804	$ 620

The weighted-average grant date fair value of stock options granted during 2015, 2014, and 2013 was $10.67 , $2.40 , and $0.52 per share, respectively. As of December 31, 2015, the total unrecognized compensation expense related to unvested options, net of estimated forfeitures, was $78.2 million , which the Company expects to recognize over an estimated weighted average period of 2.9 years , respectively.

As of December 31, 2015, the total unrecognized compensation expense related to unvested RSUs, net of estimated forfeitures, was $96.6 million , which the Company expects to recognize over an estimated weighted average period of 3.5 years . As of December 31, 2015, the total unrecognized compensation expense related to unvested common stock issued in connection with the FitStar acquisition, net of estimated forfeitures, was $1.7 million , which the Company expects to recognize over an estimated weighted average period of 2.2 years .

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. The fair value of RSUs is the fair value of the Company's Class A common stock on the grant date. In determining the fair value of the options and the equity awards issued under the 2015 ESPP, the Company uses the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment.

Fair Value of Common Stock —The fair value of the shares of common stock underlying stock options has historically been established by the Company's board of directors, which is responsible for these estimates, and has been based in part upon a valuation provided by an independent third-party valuation firm. Because there has been no public market for the Company's common stock, its board of directors considered this independent valuation and other factors, including, but not limited to, revenue growth, the current status of the technical and commercial success of its operations, its financial condition, the stage of development and competition to establish the fair value of the Company's common stock at the time of grant of the option. The fair value of the underlying common stock will be determined by the board of directors until such time as its common stock is listed on a stock exchange. Following the completion of the IPO, the Company began using the market closing price for Class A common stock as reported on the New York Stock Exchange.

Expected Term —The expected term represents the period over which the Company anticipates stock-based awards to be outstanding. The Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time stock-based awards have been exercisable. As a result, for stock options, the Company used the simplified method to calculate the expected term estimate based on the vesting and contractual terms of the option. Under the simplified method, the expected term is equal to the average of the stock-based award's weighted average vesting period and its contractual term. The expected term of the 2015 ESPP is based on the contractual term.

Volatility —Expected volatility is a measure of the amount by which the stock price is expected to fluctuate. The Company estimates the expected volatility of the common stock underlying its stock options at the grant date by taking the average historical volatility of the common stock of a group of comparable publicly traded companies over a period equal to the expected life of the options.

Risk-Free Rate —The risk-free interest rate is estimated average interest rate based on U.S. Treasury zero-coupon notes with terms consistent with the expected term of the awards.

Dividend Yield —The Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future. Consequently, it used an expected dividend yield of zero.

In addition, the Company is required to estimate the amount of stock-based compensation that it expects to be forfeited based on historical experience. The assumptions used in calculating the fair value of the stock-based awards represent management judgment. As a result, if factors change and different assumptions are used, the stock-based compensation expense could be materially different in the future. The fair value of the stock option awards and awards issued under the 2015 ESPP granted to employees was estimated at the date of grant using a Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31,		
	2015	2014	2013
Employee stock options			
Expected term (in years)	6.25	6.25	6.00 – 6.25
Volatility	52.1% - 56.9%	54.83% – 60.94%	60.57% – 62.03%
Risk-free interest rate	1.5% - 1.9%	1.73% – 2.04%	1.04% – 1.93%
Dividend yield	—%	—%	—%
Employee stock purchase plan			
Expected term (in years)	0.5 – 0.9	—	—
Volatility	27.7% - 35.0%	—%	—%
Risk-free interest rate	0.3%	—%	—%
Dividend yield	—%	—%	—%

11. Income Taxes

The following table presents domestic and foreign components of income (loss) before income taxes for the periods presented (in thousands):

	Year Ended December 31,		
	2015	2014	2013
United States	$ 278,250	$ 150,137	$ (13,779)
Foreign	9,699	(10,364)	94
Total	$ 287,949	$ 139,773	$ (13,685)

The income tax expense is composed of the following (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	$ 140,396	$ 47,565	$ 31,176
State	13,307	2,319	6,736
Foreign	1,107	113	25
Total current	154,810	49,997	37,937
Deferred:			
Federal	(33,421)	(39,339)	—
State	(8,941)	(2,651)	—
Foreign	(176)	(11)	—
Total deferred	(42,538)	(42,001)	—
Total income tax expense	$ 112,272	$ 7,996	$ 37,937

The reconciliation of the Company’s effective tax rate to the statutory federal rate is as follows:

	Year Ended December 31,		
	2015	2014	2013
Tax at federal statutory rate	35.0 %	35.0 %	(35.0)%
State taxes, net of federal effect	1.5	(0.2)	32.0
Foreign rate differential	(0.8)	2.7	(0.1)
Tax credits	(2.0)	(1.1)	(9.6)
Domestic production activities deduction	(3.3)	(2.6)	(12.7)
Warrant fair value adjustment	6.9	3.3	8.6
Stock-based compensation	1.7	—	—
Change in valuation allowance	—	(32.0)	292.6
Other	—	0.6	1.4
Effective tax rate	39.0 %	5.7 %	277.2 %

For 2015, the Company recorded an expense for income taxes of $112.3 million , for an effective tax rate of 39.0% . The effective tax rate is higher than the statutory federal tax rate primarily due to state taxes, net of federal benefit and certain permanent differences related to the non-deductible change in fair value of the redeemable convertible preferred stock warrant liability and non-deductible stock-based compensation expense, partially offset by non-taxable income associated with the change in contingent consideration from the FitStar acquisition and a permanent domestic production activities deduction. For 2014, the Company recorded an expense for income taxes of $8.0 million , for an effective tax rate of 5.7% . The tax expense in 2014 reflects tax benefits of $51.3 million from the full release of the Company's deferred income tax asset valuation allowance, of which $6.4 million related to a state tax benefit, partially offset by income tax expense on earnings.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets were as follows (in thousands):

	December 31,	
	2015	2014
Net operating losses and credits	$ 5,225	$ 1,331
Fixed assets and intangible assets	1,227	2,436
Accruals and reserves	54,891	23,331
Fitbit Force recall reserve	1,910	8,159
Stock-based compensation	9,642	1,306
Other	10,566	5,438
Gross deferred tax assets	83,461	42,001
Debt issuance costs	(441)	—
Net deferred tax assets	$ 83,020	$ 42,001

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position. The Company early adopted ASU 2015-17 retrospectively in its fourth quarter of 2015 and reclassified all of its current deferred tax assets to noncurrent deferred tax assets on the consolidated balance sheets for all periods presented.

The Company accounts for deferred taxes under ASC Topic 740, "Income Taxes" ("ASC 740") which involves weighing positive and negative evidence concerning the realizability of the Company's deferred tax assets in each jurisdiction. The Company evaluated its ability to realize the benefit of its net deferred tax assets and weighed all available positive and negative evidence both objective and subjective in nature. In determining the need for a valuation allowance, the weight given to positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. Consideration was given to negative evidence such as: the duration and severity of losses in prior years, high seasonal revenue concentrations, increasing competitive pressures, and a challenging retail environment. However, after considering three consecutive years of revenue growth and a three-year cumulative income position as of September 30, 2014, the Company believes the weight of the objectively verifiable positive evidence is sufficient to overcome the weight of any negative evidence. Accordingly, for 2014, based on its assessment of the realizability of its deferred tax assets, the Company released the valuation allowance against all of its U.S. deferred tax assets which resulted in a tax benefit of $51.3 million . As of December 31, 2015 , the Company continued to believe that it was more-likely-than-not that it would have future taxable income sufficient to realize the benefit of the Company's net deferred tax assets.

As a result of certain realization requirements of ASC 718, the table of deferred tax assets and liabilities does not include certain deferred tax assets as of December 31, 2015, that arose directly from tax deductions related to equity compensation that are greater than the compensation recognized for financial reporting. Equity will be increased by $25.1 million for foreign tax purposes, if and when such deferred tax assets are ultimately realized. The Company uses tax law ordering when determining when excess tax benefits have been realized.

As of December 31, 2015, the Company has federal net operating loss carryforwards of $5.8 million which expire beginning in 2033, California net operating loss carryforwards of $5.7 million which expire beginning in 2033, and United Kingdom net operating loss carryforwards of $25.1 million which do not expire. As of December 31, 2015 , the Company has federal research credit carryforwards of approximately $0.2 million , which if not utilized, begin to expire in 2028 and California research credit carryforwards of approximately $6.4 million , which do not expire.

Utilization of the net operating loss and tax credit carry forwards are subject to an annual limitation due to the ownership percentage change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of the net operating loss before utilization. The Company completed FitStar, Inc.'s Section 382 analysis through March 2015 and determined that an ownership change, as defined under Section 382 of the Internal Revenue Code, occurred in March 2015. The Company does not expect the limitation to result in a reduction in total amount utilizable.

It is the intention of the Company to indefinitely reinvest the earnings of the Company's foreign subsidiaries. The Company does not provide for U.S. income taxes on the earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely. If these earnings were distributed to the United States in the form of dividends or otherwise or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred the Company would be subject to additional U.S. income taxes, subject to adjustment for foreign tax credits, and foreign withholding taxes. As of December 31, 2015 , there was $1.6 million of cumulative foreign earnings upon which U.S. income taxes have not been provided.

As of December 31, 2015 and 2014, the Company has $23.5 million and $10.6 million of unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	December 31,		
	2015	2014	2013
Balance at beginning of year	$ 10,594	$ 7,991	$ 634
Reductions based on tax positions related to prior year	(18)	(418)	(87)
Additions based on tax positions related to current year	12,942	3,021	7,444
Balance at end of year	$ 23,518	$ 10,594	$ 7,991

At December 31, 2015 , the total amount of gross unrecognized tax benefits was $23.5 million , all of which would affect the effective tax rate if recognized. The Company does not have any tax positions as of December 31, 2015 for which it is reasonably possible the total amount of gross unrecognized tax benefits will increase or decrease within the following 12 months . The Company's policy is to record interest and penalties related to unrecognized tax benefits as income tax expense. During 2015 and 2014, the Company recorded $0.6 million and $0.3 million related to the accrual of interest and penalties.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. The material jurisdictions in which the Company is subject to potential examination include the United States and Ireland. The Company believes that adequate amounts have been reserved for these jurisdictions. The Company is under examination by the Internal Revenue Service for the 2013 tax year. For federal, state and non-U.S. tax returns, the Company is generally no longer subject to tax examinations for years prior to 2008.

12. Related-Party Transactions

Softbank Distribution Agreement

In December 2012, the Company granted SoftBank BB Corporation ("SoftBank BB"), an entity affiliated with SoftBank PrinceVille Investments, L.P., one of the Company's investors, a distribution right for the Company's products in Japan, pursuant to a distribution agreement. The agreement was subsequently amended in December 2014 such that SoftBank BB relinquished its right of exclusivity.

For 2014 and 2013, the Company recognized a reduction of $1.7 million to revenue and $17.6 million in revenue, respectively related to SoftBank BB. The Company also recognized $0.1 million in expenses related to SoftBank BB in 2013. During 2014, product sales to SoftBank BB were $1.2 million . However the Company accepted sales returns of $2.9 million due to the amendment of the distribution agreement. An additional refund of $0.3 million was paid to SoftBank BB in 2015, and no amounts were due to either party as of December 31, 2015.

13. Net Income (Loss) per Share Attributable to Common Stockholders

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

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net income (loss)	$ 175,677	$ 131,777	$ (51,622)
Less: noncumulative dividends to preferred stockholders	(2,526)	(5,326)	—
Less: undistributed earnings to participating securities	(59,133)	(98,103)	—
Net income (loss) attributable to common stockholders—basic	114,018	28,348	(51,622)
Add: adjustments to undistributed earnings to participating securities	8,821	10,175	—
Net income (loss) attributable to common stockholders—diluted	$ 122,839	$ 38,523	$ (51,622)
Denominator:			
Weighted-average shares of common stock—basic for Class A and Class B	129,886	40,351	39,179
Effect of dilutive securities	34,327	20,828	—
Weighted-average shares of common stock—diluted for Class A and Class B	164,213	61,179	39,179
Net income (loss) per share attributable to common stockholders:			
Basic	$ 0.88	$ 0.70	$ (1.32)
Diluted	$ 0.75	$ 0.63	$ (1.32)

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

	December 31,		
	2015	2014	2013
Redeemable convertible preferred stock	65,903	139,851	139,504
Stock options to purchase common stock	445	4,420	23,440
Restricted stock units	692	—	—
Redeemable convertible preferred stock warrants	921	1,955	2,302
Total	67,961	146,226	165,246

14. Significant Customer Information and Other Information

Retailer and Distributor Concentration

Retailers and distributors with revenue equal to or greater than 10% of total revenue were as follows:

	December 31,		
	2015	2014	2013
A	15%	13%	*
B	14	12	14
C	14	11	14

* Revenue was less than 10%.

Retailers and distributors that accounted for equal to or greater than 10% of accounts receivable at December 31, 2015 and 2014 were as follows:

	December 31,	
	2015	2014
C	23%	14%
B	19	17
A	15	*
D	*	13
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):

	December 31,		
	2015	2014	2013
United States	$ 1,381,152	$ 562,553	$ 206,082
Americas excluding United States	92,252	38,576	9,094
Europe, Middle East, and Africa	208,767	60,699	25,041
APAC	175,827	83,605	30,870
Total	$ 1,857,998	$ 745,433	$ 271,087

As of December 31, 2015 and 2014, long-lived assets, which represent property and equipment, located outside the United States were $28.9 million and $20.0 million , respectively.

15. Acquisition

In March 2015, the Company acquired all of the outstanding securities of FitStar, Inc., 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 common stock, net of a repurchase of 24,949 shares, $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 shareholders. The actual amount of this 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 is adjusted at each reporting period, and the change in fair value is included in other income (expense), net on the consolidated statement 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 . The terms related to the contingent consideration have 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

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 shares of common stock net of a repurchase of 24,948 shares, 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. The Company also recorded acquisition-related transaction costs of $0.3 million , which were included in general and administrative expenses in the consolidated statement of operations during the year ended December 31, 2015.

The results of operations of the acquisition are included in the accompanying 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 consolidated financial statements.

16. Selected Unaudited Quarterly Financial Data

The following tables show a summary of the Company's unaudited quarterly financial information for each of the four quarters of 2015 and 2014 (in thousands, except per share amounts):

	Three Months Ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Revenue	$ 711,570	$ 409,262	$ 400,412	$ 336,754
Gross profit	$ 348,299	$ 196,013	$ 187,542	$ 169,209
Net income	$ 64,165	$ 45,834	$ 17,681	$ 47,997
Net income per share attributable to common stockholders—basic	$ 0.30	$ 0.22	$ 0.09	$ 0.26
Net income per share attributable to common stockholders—diluted	$ 0.26	$ 0.19	$ 0.07	$ 0.22

	Three Months Ended			
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Revenue	$ 370,184	$ 152,862	$ 113,572	$ 108,815
Gross profit	$ 170,894	$ 83,605	$ 58,389	$ 44,769
Net income	$ 39,240	$ 68,912	$ 14,753	$ 8,872
Net income per share attributable to common stockholders—basic	$ 0.21	$ 0.38	$ 0.07	$ 0.04
Net income per share attributable to common stockholders—diluted	$ 0.19	$ 0.34	$ 0.07	$ 0.04

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2015. Based on the evaluation of our disclosure controls and procedures as of December 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management’s Report on Internal Control Over Financial Reporting

This Annual Report on Form 10-K does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by the rules of the SEC for newly public companies.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, recognizes that our disclosure controls or our internal control over financial reporting cannot prevent or detect all possible instances of errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required for this Item is incorporated by reference from our Proxy Statement to be filed in connection with our 2016 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2015.

Item 11. Executive Compensation

The information required for this Item is incorporated by reference from our Proxy Statement to be filed in connection with our 2016 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2015.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required for this Item is incorporated by reference from our Proxy Statement to be filed in connection with our 2016 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2015.

Item 13. Certain Relationships and Related Transaction, and Director Independence

The information required for this Item is incorporated by reference from our Proxy Statement to be filed in connection with our 2016 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2015.

Item 14. Principal Accounting Fees and Services

The information required for this Item is incorporated by reference from our Proxy Statement to be filed in connection with our 2016 Annual Meeting of Stockholders within 120 days after the end of the fiscal year ended December 31, 2015.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements
   The financial statements filed as part of this Annual Report on Form 10-K are listed in the "Index to Consolidated Financial Statements" under Part II, Item 8 of this Annual Report on Form 10-K.
2. Financial Statement Schedules
   All schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or notes to consolidated financial statements under Item 8.
3. Exhibits
   See Exhibit Index following the signature page of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 26, 2016

FITBIT, INC.

By: /s/ James Park

James Park

President, Chief Executive Officer, and Chairman

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints James Park and William Zerella, and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ James Park **James Park**	President, Chief Executive Officer, and Chairman *(Principal Executive Officer)*	February 26, 2016
/s/ William Zerella **William Zerella**	Chief Financial Officer *(Principal Financial and Accounting Officer)*	February 26, 2016
/s/ Eric N. Friedman **Eric N. Friedman**	Chief Technology Officer and Director	February 26, 2016
/s/ Jonathan D. Callaghan **Jonathan D. Callaghan**	Director	February 26, 2016
/s/ Steven Murray **Steven Murray**	Director	February 26, 2016
/s/ Christopher Paisley **Christopher Paisley**	Director	February 26, 2016

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation of Registrant.	10-Q	001-37444	3.1	8/7/2015	
3.2	Restated Bylaws of Registrant.	10-Q	001-37444	3.2	8/7/2015	
4.1	Form of Registrant's Class A common stock certificate.	S-1/A	333-203941	4.1	6/2/2015	
4.2	Third Amended and Restated Investors' Rights Agreement by and among the Registrant and certain stockholders of the Registrant, dated June 6, 2013.	S-1	333-203941	4.2	5/7/2015	
10.1*	Form of Indemnification Agreement.	S-1	333-203941	10.1	5/7/2015	
10.2*	Amended and Restated 2007 Stock Plan, as amended, and forms of award agreements.	S-1	333-203941	10.2	5/7/2015	
10.3*	2015 Equity Incentive Plan and forms of award agreements.	S-1	333-203941	10.3	5/7/2015	
10.4*	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	
10.5*	2015 Employee Stock Purchase Plan.	S-1	333-203941	10.4	5/7/2015	
10.6*	Offer Letter by and between the Registrant and William Zerella, dated April 24, 2014.	S-1	333-203941	10.5	5/7/2015	
10.7*	Offer Letter by and between the Registrant and Edward Scal, dated October 9, 2010.					X
10.8*	Offer Letter by and between the Registrant and Andy Missan, dated March 15, 2013.					X
10.9	Office Lease by and between the Registrant and 405 Howard, LLC, dated September 30, 2013.	S-1	333-203941	10.6	5/7/2015	
10.10	Office Lease by and between the Registrant and GLL BIT Fremont Street Partners, L.P., dated June 26, 2015.	10-Q	001-37444	10.3	8/7/2015	
10.11†	Flextronics Manufacturing Services Agreement by and among Fitbit International Limited, the Registrant, and Flextronics Sales & Marketing (A-P) Ltd., dated March 19, 2015.	S-1/A	333-203941	10.7	5/21/2015	
10.12	Second Amended and Restated Credit Agreement, by and among Fitbit, Inc., the lenders party thereto and Silicon Valley Bank, as administrative agent, dated December 10, 2015.	8-K	001-37444	10.1	12/15/2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.13	Revolving Credit and Guaranty Agreement by and among Registrant, the Guarantors party thereto, the Lenders party thereto, Morgan Stanley Bank N.A., and Morgan Stanley Senior Funding, Inc., dated August 13, 2014.	S-1	333-203941	10.9	5/7/2015	
10.14*	Form of Retention Agreement.	S-1/A	333-203941	10.10	5/21/2015	
21.1	List of Subsidiaries of Registrant.					X
23.1	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.					X
24.1	Power of Attorney (included on page II-2).					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 Certification of Chief Executive Officer.					X
32.2◊	Section 1350 Certification of Chief Financial Officer.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Schema Linkbase Document.					X
101.CAL	XBRL Calculation Linkbase Document.					X
101.DEF	XBRL Definition Linkbase Document.					X
101.EXT	XBRL Extension Label Linkbase Document.					X
101.PRE	XBRL Presentation Linkbase Document.					X

* Indicates a management contract or compensatory plan.

† Portions of this exhibit have been granted confidential treatment by the SEC

◊ 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.

625 Market Street, Suite 1400 | San Francisco, CA 94105

October 9, 2010

PERSONAL AND CONFIDENTIAL

Edward Scal

Dear Woody,

Fitbit, Inc. (the "Company") is pleased to offer you the full-time position of Senior Vice President, Marketing, Sales, and and Business Development, reporting to James Park, CEO. We are excited about the prospect of you joining our team, and look forward to the addition of your professionalism and experience to help the Company achieve its goals.

Your salary will be paid at an initial rate of Two Hundred Twenty Five Thousand dollars ($225,000.00) per annum. Your salary will be paid in accordance with the Company's normal payroll practices as established or modified from time to time. Currently, salaries are paid on a semi-monthly basis. In addition to your base salary, you will be entitled to an annual incentive compensation of Seventy Five Thousand dollars ($75,000.00) that will be based on your performance and target business results. The target goals will be assigned quarterly by the CEO and will be based upon revenue achievement and other targets as assigned during the quarter. The incentive compensation will be paid in the last day of the month following the quarter in which the incentive compensation is earned and will be prorated from your hire date. There will be an opportunity to earn a higher incentive compensation if the targets are exceeded. The Company reserves the right to amend, change or cease this plan at any time.

In connection with your employment, you will be eligible to participate in benefits programs that have been adopted by the Company to the same extent as, and subject to the same terms, conditions and limitations applicable to, other employees of the Company of similar rank and tenure.

Subject to the approval of the Company's Board of Directors, you will be granted the option to purchase 187,673 shares of the Company's common stock. The option will be subject to the terms and conditions of the Company's standard form of Stock Option Agreement (the " Option Agreement ") and the Company's 2007 Stock Plan (the " Plan "), which will include, among other things, a vesting schedule. Please consult the Option Agreement and the Plan for further information.

In addition, subject to the approval of the Company's Board of Directors, you will have the opportunity to buy into 2.0% of the Company's fully diluted stock in preferred shares at $2.59 per share of which 0.5% will be available until December 31, 2010 and 1.5% will be available until Jan 31, 2011.

The Company requires you to verify that the performance of your position at the Company does not and will not breach any agreement entered into by you prior to employment with the Company (i.e., you have not entered into any agreements with previous employers that are in conflict with your obligations to the Company). Please provide us with a copy of any such agreements. You will also be required to sign an Employee Inventions and Proprietary Rights Assignment Agreement as a condition of your employment with the Company. A copy of this agreement will be made available to you.

Moreover, you will be required to provide the Company with documents establishing your identity and right to work in the United States. Those documents must be provided to the Company within three business days of your employment start date.

The above terms are not contractual. They are a summary of our initial employment relationship and are subject to later modification by the Company. Your employment with the Company will be “at-will,” meaning that either you or the Company may terminate your employment relationship at any time, for any reason, with or without prior notice. The Company has found that an “at-will” relationship is in the best interests of both the Company and its employees.

We are very interested in having you join the Company. If you agree to the offer terms above, please sign below.

Sincerely,

/s/ James Park

Co-Founder & CEO
Fitbit, Inc.

Fitbit, Inc.

l50 Spear Street, Suite 200, San Francisco, CA 94105

March 15, 2013

PERSONAL AND CONFIDENTIAL

Andy Missan

Dear Andy:

FitBit, Inc. (the " Company '') is pleased to offer you the full-time position of Vice President and General Counsel, reporting to James Park, Founder & CEO. We are excited about the prospect of you joining our team, and look forward to the addition of your professionalism and experience to help the Company achieve its goals.

Your salary will be paid at an initial rate of Two Hundred Twenty Thousand Dollars ($220,000) per annum along with an annual bonus of Twenty Five Thousand Dollars ($25,000). You will also be eligible to participate in any incentive bonus programs for key executives that are adopted by the Company following your start date. In the event any such executive bonus plan covering the key executives of the Company is implemented, the bonus eligibility will be the higher of $25,000 or the amount designated in the executive bonus plan. Any bonus amounts will be earned by completing mutually agreed upon goals that will be evaluated by the CEO on an annual basis and paid out based on the length of your service during the year. Your salary will be paid in accordance with the Company's normal payroll practices as established or modified from time to time. Currently, .salaries are paid on a bi-monthly basis. In connection with your employment, you will be eligible to participate in benefits programs that have been adopted by the Company to the same extent as, and subject to the same terms, conditions and limitations applicable to, other employees of the Company of similar rank and tenure.

Subject to the approval of the Company's Board of Directors, you will be granted the option to purchase two hundred thousand six hundred seventy eight (200,678) shares of the Company's common stock (equivalent to 0.35% of outstanding shares on a fully-diluted basis, including issued and reserved options under the employee poo1, as of the date hereof). The option will be designated as an Incentive Stock Option to the maximum extent permitted by law. The option will be subject to the terms and conditions of the Company's standard form of Stock Option Agreement (the " Option Agreement ") and the Company's 2007 Stock Plan (the " Plan "), which will include, among other things, a vesting schedule. The vesting schedule for your options will commence as of the first date of your employment. You will vest in 25% of the option shares after l2 months of service, and the balance will vest in monthly installments over the next 36 months of service, as described in the applicable Option Agreement. Please consult the Option Agreement and the Plan for further information.

Notwithstanding the vesting provisions set forth in the Option Agreement; if there is a Change of Control (as defined in the Plan) and in connection with such Change of Control or within twelve (12) months following the closing of a Change in Control (i) you are "involuntarily separated" (as defined below) from the Company (or a successor to the Company pursuant to a Change in Control), or (ii) there is a Constructive Termination (as defined below) and you terminate your employment with the Company or its successor within six (6) months following such Constructive Termination, then one-half of any then remaining unvested shares under all stock options held by you on the date of such termination shall immediately vest and become exercisable.

As used herein, “Constructive Termination’’ means the occurrence of any of the following events: (i) any material diminution or material adverse change in your duties or responsibilities (other than in connection with your unavailability by reason of disability), (ii) a reduction of more than 10% in any one year period by the Company in your base salary (other than on account of a reduction applicable to all executive employees) or (iii) the relocation of your principal work location more than fifty (50) miles from San Mateo, California, except for required travel substantially consistent with your business obligations. For the avoidance of doubt, a mere change in title without a material adverse change in duties or responsibilities shall not constitute grounds for an “Constructive Termination”. You shall be deemed to have been “involuntarily separated” if your employment is terminated by the Company (or a successor) for a reason other than “Cause” (as defined in the Plan), death or permanent disability.

The Company requires you to verify that the performance of your position at the Company does not and will not breach any agreement entered into by you prior to employment with the Company (i.e., you have not entered into any agreements with previous employers that are in conflict with your obligations to the Company). Please provide us with a copy of any such agreements. You will also be required to sign an Employee Inventions and Proprietary Rights Assignment Agreement as a condition of your employment with the Company. A copy of this agreement will be made available to you.

Moreover, you will be required to provide the Company with documents establishing your identity and right to work in the United States. Those documents must be provided to the Company within three business days of your employment start date.

Your employment with the Company will be “at will,” meaning that either you or the Company will be entitled to terminate your employment at any time and for any reason, with or without cause. Any contrary representations that may have been made to you are superseded by this offer. This is the full and complete agreement between you and the Company. Although your job duties, title, compensation and benefits, as well as the Company’s personnel policies and procedures, may change from time to time, the “at will” nature of your employment may only be changed in an express written agreement signed by you and a duly authorized officer of the Company.

We are very interested in having you join the Company. If you agree to the offer terms above, please sign below. If you have any questions regarding this offer, please contact Meena Srinivasan, VP Finance & HR at .

Sincerely,

/s/ James Park

Name: James Park
Title: Co-founder & CEO

I have read and accept the terms and conditions of this offer.

Signed: /s/ Andy Missan
Date: March 23, 2013

EXHIBIT 21.1

LIST OF SUBSIDIARIES
FITBIT, INC.*

Fitbit International Limited (Ireland)

*Pursuant to Item 601(b)(21)(ii) of Regulation S-K, the names of other subsidiaries of Fitbit, Inc. are omitted because, considered in the aggregate, they would not constitute a significant subsidiary as of the end of the year covered by this Annual Report on Form 10-K.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-205045) of Fitbit, Inc. of our report dated February 26, 2016 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Francisco, California
February 26, 2016

EXHIBIT 31.1

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 annual report on Form 10-K 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: February 26, 2016

/s/ James Park

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

EXHIBIT 31.2

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 annual report on Form 10-K 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: February 26, 2016

/s/ William Zerella

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

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE 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, President, Chief Executive Officer and Chairman of Fitbit Inc., do hereby 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 Annual Report on Form 10-K of Fitbit, Inc. for the year ended December 31, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Fitbit, Inc.

Date: February 26, 2016

By: /s/ James Park

James Park

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

EXHIBIT 32.2

CERTIFICATION OF 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, William Zerella, Chief Financial Officer of Fitbit Inc., do hereby 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 Annual Report on Form 10-K of Fitbit, Inc. for the year ended December 31, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Fitbit, Inc.

Date: February 26, 2016	By:	/s/ William Zerella
		William Zerella
		Chief Financial Officer *(Principal Financial and Accounting Officer)*