

FOX FACTORY HOLDING CORP
Form 10-Q
August 03, 2017
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

Commission File Number: 001-36040

Fox Factory Holding Corp.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 26-1647258
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

915 Disc Drive 95066
Scotts Valley, CA
(Address of Principal Executive Offices) (Zip Code)
(831) 274-6500
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

As of July 26, 2017, there were 37,429,110 shares of the Registrant's common stock outstanding.

Fox Factory Holding Corp.
 FORM 10-Q
 Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
Condensed Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 30, 2016	1
Unaudited Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2017 and July 1, 2016	2
Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and July 1, 2016	3
Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and July 1, 2016	4
Notes to Unaudited Condensed Consolidated Financial Statements	5
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	29
 <u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	30
<u>Item 1A. Risk Factors</u>	30
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
<u>Item 3. Defaults Upon Senior Securities</u>	46
<u>Item 4. Mine Safety Disclosures</u>	46
<u>Item 5. Other Information</u>	46
<u>Item 6. Exhibits</u>	47
<u>Signatures</u>	48

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FOX FACTORY HOLDING CORP.

Condensed Consolidated Balance Sheets

(in thousands, except per share data)

	June 30, 2017 (Unaudited)	December 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,345	\$ 35,280
Accounts receivable (net of allowances of \$540 and \$397 at June 30, 2017 and December 30, 2016, respectively)	63,050	61,617
Inventory	89,450	71,243
Prepays and other current assets	12,113	14,772
Total current assets	207,958	182,912
Property, plant and equipment, net	34,853	32,262
Deferred tax assets	10,930	4,082
Goodwill	57,828	57,781
Intangibles, net	56,531	57,855
Other assets	629	708
Total assets	\$ 368,729	\$ 335,600
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 51,084	\$ 36,240
Accrued expenses	29,926	34,435
Reserve for uncertain tax positions	8,069	7,204
Current portion of long-term debt	4,097	3,625
Current portion of contingent consideration	—	5,532
Total current liabilities	93,176	87,036
Long-term debt, less current portion	60,774	63,058
Deferred rent	485	569
Total liabilities	154,435	150,663
Commitments and contingencies (Note 6)		
Stockholders' equity		
Preferred stock, \$0.001 par value — 10,000 authorized and no shares issued or outstanding as of June 30, 2017 and December 30, 2016	<u> </u>	<u> </u>
Common stock, \$0.001 par value — 90,000 authorized; 38,319 shares issued and 37,429 outstanding as of June 30, 2017; 37,781 shares issued and 36,891 outstanding as of December 30, 2016		37
Additional paid-in capital	111,936	108,049
Treasury stock, at cost; 890 common shares as of June 30, 2017 and December 30, 2016	(13,754)	(13,754)
Accumulated other comprehensive loss	(977)	(2,193)
Retained earnings	117,052	92,798
Total stockholders' equity	214,294	184,937
Total liabilities and stockholders' equity	\$ 368,729	\$ 335,600

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

Table of Contents

FOX FACTORY HOLDING CORP.
Condensed Consolidated Statements of Income
(in thousands, except per share data)
(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Sales	\$120,811	\$102,294	\$227,141	\$182,511
Cost of sales	81,755	69,967	154,370	125,066
Gross profit	39,056	32,327	72,771	57,445
Operating expenses:				
Sales and marketing	7,067	6,476	13,660	13,030
Research and development	4,982	4,582	9,464	8,974
General and administrative	8,122	7,109	16,202	13,030
Amortization of purchased intangibles	696	782	1,391	1,577
Fair value adjustment of contingent consideration and acquisition-related compensation	—	2,100	1,447	3,863
Total operating expenses	20,867	21,049	42,164	40,474
Income from operations	18,189	11,278	30,607	16,971
Other expense, net:				
Interest expense	505	576	1,094	960
Other (income) expense, net	(78)	(31)	467	872
Other expense, net	427	545	1,561	1,832
Income before income taxes	17,762	10,733	29,046	15,139
Provision for income taxes	4,036	1,816	4,792	2,961
Net income	\$13,726	\$8,917	\$24,254	\$12,178
Earnings per share:				
Basic	\$0.37	\$0.24	\$0.65	\$0.33
Diluted	\$0.35	\$0.24	\$0.63	\$0.32
Weighted average shares used to compute earnings per share:				
Basic	37,330	36,607	37,232	36,772
Diluted	38,725	37,594	38,643	37,727

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

Table of Contents

FOX FACTORY HOLDING CORP.

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Net income	\$13,726	\$8,917	\$24,254	\$12,178
Other comprehensive (income) loss:				
Foreign currency translation adjustments, net of tax effects	(36)	(42)	1,217	792
Other comprehensive (income) loss	(36)	(42)	1,217	792
Comprehensive income	\$13,690	\$8,875	\$25,471	\$12,970

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

Table of Contents

FOX FACTORY HOLDING CORP.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the six months ended	
	June 30, 2017	July 1, 2016
OPERATING ACTIVITIES:		
Net income	\$24,254	\$12,178
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,705	4,235
Stock-based compensation	4,289	3,092
Deferred taxes	(6,838)	(6,004)
Change in fair value of contingent consideration	(150)	839
Cost of goods on acquired inventory step up	—	106
Changes in operating assets and liabilities:		
Accounts receivable	(295)	(12,885)
Inventory	(17,422)	(12,629)
Income taxes payable	6,079	461
Prepays and other assets	(651)	(2,141)
Accounts payable	13,960	17,335
Accrued expenses and deferred rent	(6,918)	(3,777)
Net cash provided by operating activities	21,013	810
INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,293)	(6,875)
Purchase of intangible assets	(54)	—
Net cash used in investing activities	(5,347)	(6,875)
FINANCING ACTIVITIES:		
Proceeds from line of credit	—	26,000
Payments on line of credit	—	(9,000)
Payment of contingent consideration liability	(5,382)	(6,889)
Proceeds from issuance of debt, net of origination fees of \$286	—	9,221
Repayment of debt	(1,875)	(1,647)
Repurchase of common stock	—	(7,948)
Cash from stock compensation program, net	(402)	(697)
Net cash (used in) provided by financing activities	(7,659)	9,040
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	58	205
CHANGE IN CASH AND CASH EQUIVALENTS	8,065	3,180
CASH AND CASH EQUIVALENTS—Beginning of period	35,280	6,944
CASH AND CASH EQUIVALENTS—End of period	\$43,345	\$10,124
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$548	\$5,809
Interest	\$973	\$774
Non-cash financing activity:		
Refinancing of line of credit to term debt	\$—	\$18,500

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

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements

(in thousands, except per share amounts)

(Unaudited)

1. Description of the Business, Basis of Presentation and Summary of Significant Accounting Policies

Fox Factory Holding Corp. (the "Company") designs and manufactures performance-defining ride dynamics products primarily for bicycles, on-road and off-road vehicles and trucks, side-by-side vehicles, all-terrain vehicles, snowmobiles, specialty vehicles and applications, and motorcycles. The Company is a direct supplier to leading power vehicle original equipment manufacturers ("OEMs"). Additionally, the Company supplies top bicycle OEMs and their contract manufacturers, and provides aftermarket products to retailers and distributors.

Throughout this Form 10-Q, unless stated otherwise or as the context otherwise requires, the "Company," "FOX," "Fox Factory," "we," "us," "our," and "ours" refer to Fox Factory Holding Corp. and its wholly owned operating subsidiaries on a consolidated basis.

Basis of Presentation - The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America ("U.S.") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the US. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 30, 2016 included in the Company's Annual Report on Form 10-K as filed with the SEC. In management's opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, that are necessary for a fair presentation of financial results for the interim periods presented. Operating results for any quarter are not necessarily indicative of the results expected for the full fiscal year.

The Company operates on a 52-53 week fiscal calendar. For 2017 and 2016, the Company's fiscal year will end or has ended on December 29, 2017 and December 30, 2016, respectively. The three and six month periods ended June 30, 2017 and July 1, 2016 each included 13 weeks and 26 weeks.

Principles of Consolidation - These condensed consolidated financial statements include the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Summary of Significant Accounting Policies - There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 30, 2016 that have had a material impact on our condensed consolidated financial statements and related notes.

Use of Estimates - The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from management's estimates.

Certain Significant Risks and Uncertainties - The Company is subject to those risks common in manufacturing-driven markets, including, but not limited to, competitive forces, dependence on key personnel, customer demand for its products, the successful protection of its proprietary technologies, compliance with government regulations, and the possibility of not being able to obtain additional financing when needed.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

Fair Value Measurements - The Company uses the fair value hierarchy established in ASC Topic 820, Fair Value Measurements and Disclosures, which requires the valuation of assets and liabilities subject to fair value measurements using a three tiered approach and fair value measurement be classified and disclosed by the Company in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The carrying amount of the Company's financial instruments, including cash, receivables, accounts payable, and accrued liabilities approximate their fair values due to their short-term nature.

Recent Accounting Pronouncements - In May 2014, the FASB and International Accounting Standards Board issued their converged standard on revenue recognition, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, updated in December 2016 with the release of ASU 2016-20. This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

This standard will be effective for fiscal years, and interim periods within those years, beginning the first quarter of fiscal year 2018. The Company can choose to apply this standard retrospectively for each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of the initial application in retained earnings. The Company has not yet selected a transition method.

We have established a cross-functional team to implement the guidance related to the recognition of revenue from contracts with customers. We are in the process of assessing our customer contracts, identifying contractual provisions that may result in a change in the timing or the amount of revenue recognized in comparison with current guidance, as well as assessing the enhanced disclosure requirements of the new guidance. Under the proposed requirements, the customized nature of some of our products combined with contractual provisions that provide us with an enforceable right to payment, may require us to recognize revenue prior to the product being shipped to the customer. We are also assessing pricing provisions contained in certain of our customer contracts which may represent variable consideration or may provide the customer with a material right, potentially resulting in a different allocation of the transaction price than under current guidance. In addition, we are evaluating how the new guidance may impact our accounting for contractually guaranteed reimbursements related to customer tooling, engineering services and pre-production costs. Under the current applicable guidance, these customer reimbursements are recorded as cost recovery offsets; whereas under the new standard these guaranteed recoveries may represent consideration from contracts with customers and be recorded as revenues. We continue to evaluate the impact this guidance will have on our financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The guidance applies to inventory that is measured using first-in, first-out ("FIFO") or average cost. Under the guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.

The Company adopted ASU 2015-11 at the beginning of fiscal year 2017. The adoption of ASU 2015-11 did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the existing guidance for lease accounting. This ASU will require lessees to recognize leases with durations greater than twelve months on the balance sheet. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation of certain transactions, including, but not limited to, contingent consideration payments made after a business combination and debt prepayment and extinguishment costs in the cash flow statement. This standard will be effective for fiscal years, and interim periods within those years, beginning the first quarter of fiscal year 2019. Early adoption is permitted. The Company is currently assessing the impact this guidance will have on its consolidated statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, Income Taxes: Intra Entity Transfer of Assets Other Than Inventory, which improves the accounting for the income tax consequences of intra entity transfers of assets other than inventory. This standard will be effective for fiscal years, and interim periods within those years, beginning the first quarter of fiscal year 2018. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, which provides more guidance to an entity when they are assessing if transactions should be accounted for as acquisitions of assets or businesses. The clarification of the definition of a business impacts various areas of accounting such as acquisitions, disposals, goodwill, and consolidations. This standard will be effective for fiscal years, and interim periods within those years, beginning the first quarter of fiscal year 2018. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill impairment, which removes the second step of the goodwill impairment test that would currently require the assessment of fair value of individual assets and liabilities of a reporting unit to measure goodwill impairments. Under ASU 2017-04, goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value. The Company adopted ASU 2017-04 effective for goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-14 did not have a material impact on the Company's consolidated financial statements.

Reclassifications - Certain non-vendor liabilities have been reclassified from accounts payable to accrued expenses in the December 30, 2016 condensed consolidated balance sheet and the condensed consolidated statement of cash flows for the six months ended July 1, 2016 in order to more accurately reflect the nature of the liability on a basis consistent with the financial statements as of and for the period ended June 30, 2017.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

2. Inventory

Inventory consisted of the following:

	June 30, 2017	December 30, 2016
Raw materials	\$58,288	\$ 46,679
Work-in-process	3,245	1,929
Finished goods	27,917	22,635
Total inventory	\$89,450	\$ 71,243

3. Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	June 30, 2017	December 30, 2016
Machinery and manufacturing equipment	\$29,868	\$ 28,752
Information systems, office equipment and furniture	6,547	7,449
Internal use computer software	6,685	5,337
Transportation equipment	3,012	2,531
Building and land	4,375	4,358
Leasehold improvements	8,225	8,083
Total	58,712	56,510
Less: accumulated depreciation and amortization	(23,859)	(24,248)
Property, plant and equipment, net	\$34,853	\$ 32,262

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

4. Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2017	December 30, 2016
Payroll and related expenses	\$9,399	\$ 10,717
Management earn-out	—	6,421
Warranty	5,077	4,593
Income tax payable	6,267	4,490
Other accrued expenses	9,183	8,214
Total	\$29,926	\$ 34,435

Activity related to warranties is as follows:

	For the three months ended June 30, July 1, 2017		For the six months ended June 30, July 1, 2016	
Beginning warranty liability	\$5,003	\$3,868	\$4,593	\$3,914
Charge to cost of sales	1,391	1,327	3,053	2,194
Costs incurred	(1,317)	(997)	(2,569)	(1,910)
Ending warranty liability	\$5,077	\$4,198	\$5,077	\$4,198

5. Debt

Second Amended and Restated Credit Facility

In August 2013, the Company entered into a credit facility with Sun Trust Bank and other named lenders which has been periodically amended and restated; the last restatement occurred on May 11, 2016 and was further amended on August 11, 2016 and June 12, 2017 (as most recently amended and restated and as further amended, the "Second Amended and Restated Credit Facility"). The Second Amended and Restated Credit Facility, which matures on May 11, 2021, provides a revolving line of credit and a maturing secured term loan with a refinanced original principal balance of \$75,000. The term loan is subject to quarterly amortization payments.

The Second Amended and Restated Credit Facility provides for interest at either a rate based on the London Interbank Offered Rate, or LIBOR, plus a margin ranging from 1.50% to 2.50%, or based on the prime rate offered by SunTrust Bank plus a margin ranging from 0.50% to 1.50%. At June 30, 2017, the one month LIBOR and prime rates were 0.48% and 3.50%, respectively. At June 30, 2017, our weighted average interest rate on outstanding borrowing was 2.78%. The Second Amended and Restated Credit Facility is secured by substantially all of the Company's assets, restricts the Company's ability to make certain payments and engage in certain transactions, and also requires that the Company satisfy customary financial ratios. The Company was in compliance with the covenants as of June 30, 2017.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

The following table summarizes the line of credit under the Second Amended and Restated Credit Facility:

	June 30,	December
	2017	30,
	2016	
Amount outstanding	\$—	\$—
Available borrowing capacity	\$ 100,000	\$ 100,000
Maximum borrowing capacity	\$ 100,000	\$ 100,000
Maturity date	May 11, 2021	

As of June 30, 2017, future principal payments for long-term debt, including the current portion, are summarized as follows:

For fiscal year:

2017 (remaining six months)	\$ 1,875
2018	5,156
2019	5,625
2020	7,031
2021	45,626
Total	65,313
Debt issuance cost	(442)
Long-term debt, net of issuance cost	64,871
Less: current portion	(4,097)
Long-term debt less current portion	\$ 60,774

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

6. Commitments and Contingencies

Operating Leases - The Company has operating lease agreements for administrative, research and development, manufacturing and sales and marketing facilities and equipment that expire at various dates. The Company recognizes rent expense on a straight-line basis over the lease term and records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. See Note 12 - Related Party Agreements for additional information on related party operating leases.

Indemnification Agreements - In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by the Company or intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. While the outcome of these matters cannot be predicted with certainty, the Company does not believe that the outcome of any claims under indemnification arrangements will have a material effect on the Company's results of operations, financial position or liquidity.

Legal Proceedings - A lawsuit was filed on December 17, 2015 by SRAM Corporation ("SRAM") in the U.S. District Court, Northern District of Illinois, against the Company's wholly owned subsidiary, RFE Canada Holding Corp. ("RFE Canada"). The lawsuit alleges patent infringement of U.S. Patent number 9,182,027 ("027 Patent") and violation of the Lanham Act. SRAM filed a second lawsuit in the same court against RFE Canada on May 16, 2016. That lawsuit alleges patent infringement of U.S. patent number 9,291,250 ("250 Patent"). The Company believes the lawsuits are without merit and intends to vigorously defend itself. As such, the Company has filed, before the U. S. Patent and Trademark Appeals Board ("PTAB"), for three separate Interparties Reviews ("IPR") of the '027 Patent and for a Post Grant Review ("PGR") of the '250 Patent. All of the Company-filed IPRs of the '027 patent have been instituted for trial by the PTAB. In addition to instituting the Company's IPR Petitions, the PTAB stayed a third party ex-parte re-exam of SRAM's '027 Patent. The PGR has been denied institution by the PTAB based on its interpretation of the '250 Patent filing date versus the America Invents Act effectivity date. In its denial opinion, the PTAB preserved the Company's prior art grounds for subject patent invalidity as stated within the PGR petition. The Company has filed an IPR Petition asserting prior art invalidity grounds against the '250 Patent. The PTAB's decision on the '250 Patent IPR is pending.

In a separate action the Company filed a lawsuit on January 29, 2016 in the U.S. District Court, Northern District of California against SRAM. That lawsuit alleges SRAM's infringement of two separate Company-owned patents, specifically U.S. Patent numbers 6,135,434 and 6,557,674. A second lawsuit was filed by the Company on July 1, 2016 in the U.S. District Court, Northern District of California against SRAM alleging SRAM's infringement of the Company's U.S. Patent numbers 8,226,172 and 8,974,009.

The SRAM lawsuits against the Company have been stayed by the Court in Illinois pending a PTAB determination in the Company filed SRAM patent reviews. Meanwhile the Company filed lawsuits have moved forward as scheduled by the courts. Due to the early stage of this lawsuit and the inherent uncertainties of litigation, the Company is not able to predict either the outcome or a range of reasonably possible losses, if any, at this time. Accordingly, no amounts have been recorded in the condensed consolidated financial statements for the settlement of these matters. Were an unfavorable ruling to occur, or if factors indicate that a loss is probable and reasonably estimable, the Company's business, financial condition or results of operations could be materially and adversely affected.

The Company is involved in other legal matters that arise in the ordinary course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Other Commitments - In 2017, the Company paid \$5,382 and \$7,898 (\$10,500 Canadian dollars) for contingent consideration and acquisition related compensation, respectively, associated with two business combinations that were consummated in 2014. No other material contractual obligation has changed since the Company's Annual Report on Form 10-K for the year ended December 30, 2016, as filed with the SEC on March 1, 2017.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

7. Fair Value Measurements

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of the following periods:

	June 30, 2017				December 30, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents	\$10,021	\$—	\$—	-\$10,021	\$—	\$—	\$—	\$—
Total assets measured at fair value	\$10,021	\$—	\$—	-\$10,021	\$—	\$—	\$—	\$—
Liabilities:								
Credit facility	\$—	\$64,871	\$—	-\$64,871	-\$66,683	\$—	\$—	\$66,683
Contingent consideration	—	—	—	—	—	5,532	5,532	5,532
Total liabilities measured at fair value	\$—	\$64,871	\$—	-\$64,871	-\$66,683	\$5,532	\$5,532	\$72,215

There were no transfers of assets or liabilities between Level 1, Level 2, and Level 3 categories of the fair value hierarchy during the six month period ended June 30, 2017 and the twelve month period ended December 30, 2016.

The Company used Level 1 inputs to determine the fair value of its cash equivalents, which primarily consist of funds held in money market accounts and certificates of deposit.

The Company used Level 2 inputs to determine the fair value of its Second Amended and Restated Credit Facility. As of June 30, 2017 and December 30, 2016, the carrying amount of the principal under the Company's Second Amended and Restated Credit Facility approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio.

The Company measured its contingent consideration liability arising from a prior acquisition using Level 3 inputs not observed in the market. The contingent consideration liability is associated with the achievement of adjusted EBITDA targets, and is estimated at each balance sheet date by considering among other factors, the acquired company's projected or actual results. The change in fair value is recorded as a component of fair value adjustment of contingent consideration and acquisition related compensation in the accompanying condensed consolidated statements of income for the six months ended June 30, 2017.

The following table provides a reconciliation of the beginning and ending balances for the Company's contingent consideration liability measured at fair value using Level 3 inputs:

	Contingent consideration liability (level 3 measurement)
Balance at December 30, 2016	\$ 5,532
Change in fair value	(150)
Payment of contingent consideration liability	(5,382)
Balance at June 30, 2017	\$ —

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

8. Stockholders' Equity

Stock Repurchase Program and Secondary Stock Offerings

In February 2016, the Company's Board of Directors authorized the Company's 2016 stock repurchase program (the "2016 Repurchase Program"), permitting repurchases of up to an aggregate of \$40,000 in shares of common stock. The plan expires on December 31, 2017, unless extended by the Company's Board of Directors. Shares of common stock repurchased under this program are accounted for as treasury stock under the cost method.

In March 2016, Compass Group Diversified Holdings LLC ("Compass") sold 2,500 shares of the Company's common stock at a price of \$15.895 per share less underwriting discounts and commissions, in a secondary public offering. The Company did not sell shares or receive any proceeds from the sales of shares by Compass. Concurrently, pursuant to the 2016 Repurchase Program and a stock repurchase agreement between Compass and the Company, the Company repurchased 500 shares of its common stock held by Compass for a total of \$7,947.

In August 2016, selling stockholders, including Compass, sold 4,025 shares of the Company's common stock at a price of \$18.00 per share, less underwriting discounts and commissions, in a secondary public offering. The total shares sold included 525 shares, which were also sold by certain selling stockholders, in connection with the underwriters' option to purchase additional shares. The Company did not sell shares or receive any proceeds from the sales of shares by the selling stockholders.

In November, 2016, the Company closed another secondary offering, whereby the selling stockholders, including Compass, sold an additional 4,025 shares of the Company's common stock at a price of \$20.51 per share, less underwriting discounts and commissions. The total shares sold include 525 shares, which were also sold by certain selling stockholders, in connection with the underwriters' option to purchase additional shares. The Company did not sell shares or receive any proceeds from the sales of shares by the selling stockholders.

In March, 2017, the Company closed another secondary offering, whereby the selling stockholders, including Compass, sold an additional 5,574 shares of the Company's common stock at a price of \$26.65 per share, less underwriting discounts and commissions. The total shares sold include 466 shares, which were also sold by certain selling stockholders, in connection with the underwriters' option to purchase additional shares. The Company did not sell shares or receive any proceeds from the sales of shares by the selling stockholders. As a result of the March 2017 secondary offering, Compass no longer holds any equity interest in the Company.

The Company incurred approximately \$113 and \$249 of expenses in connection with the secondary offerings during the three and six months ended June 30, 2017 and July 1, 2016, respectively.

At June 30, 2017, \$32,052 remains available for repurchase under the 2016 Repurchase Program. The Company has repurchased 890 shares for a total of \$13,754 under both the 2016 Repurchase Program and the prior repurchase program of the Company, which expired on December 31, 2015.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

Equity Incentive Plans

The following table summarizes the allocation of stock-based compensation in the accompanying consolidated statements of income:

	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Cost of sales	\$ 146	\$ 48	\$ 180	\$ 74
Sales and marketing	121	178	268	302
Research and development	66	112	178	182
General and administrative	2,047	1,373	3,663	2,534
Total	\$ 2,380	\$ 1,711	\$ 4,289	\$ 3,092

The following table summarizes the activity for the Company's unvested restricted stock units ("RSU") for the six months ended June 30, 2017.

	Unvested RSUs	
	Number of shares outstanding	Weighted-average grant date fair value
Unvested at December 30, 2016	811	\$ 16.53
Granted	256	\$ 27.13
Forfeited	(19)	\$ 14.91
Vested	(225)	\$ 16.58
Unvested at June 30, 2017	823	\$ 19.85

During the six months ended June 30, 2017, 391 shares of common stock were issued due to the exercise of stock options, resulting in proceeds to the Company of approximately \$2,167. Options to purchase 14 and 9 shares of common stock were expired and forfeited, respectively, during the six months ended June 30, 2017.

As of June 30, 2017, the Company had approximately \$12,368 of unrecognized stock-based compensation expense related to RSUs, which will be recognized over the remaining weighted-average vesting period of approximately 2.32 years. Additionally, as of June 30, 2017, the Company had approximately \$28 of unrecognized stock-based compensation expense related to stock options, which will be recognized over the remaining weighted-average vesting period of approximately 0.26 years.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

9. Income Taxes

	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Provision for income taxes	\$4,036	\$1,816	\$4,792	\$2,961
Effective tax rates	22.7 %	16.9 %	16.5 %	19.6 %

Under ASC 740-30, the Company is not required to accrue U.S. income taxes on permanently reinvested unremitted earnings of Fox Switzerland and its Taiwan branch. The Company considers the following matters, among others, in evaluating its plans for indefinite reinvestment: (i) the financial requirements of both the Company and its foreign operations, both for the long term and for the short term; (ii) the ability to manage cash globally through royalty remittances and intercompany loans created in the licensing and transfer of assets to Fox Switzerland; (iii) the tax consequences of any decision to reinvest the earnings of Fox Switzerland, including any changes in U.S. tax law relating to the treatment of these unremitted earnings; and (iv) any U.S. and foreign government programs or regulations relating to the repatriation of these unremitted earnings. If unremitted earnings are no longer permanently reinvested, the Company would need to adjust the income tax provision in the period management makes such determination.

For the three and six months ended June 30, 2017, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted primarily from lower foreign tax rates on permanently reinvested earnings of the Company's foreign subsidiaries and \$1,595 and \$4,021, respectively, from excess benefits related to the exercise of stock options and vesting of RSUs. These benefits were partially offset by state taxes and the impact of non-deductible costs.

For the three and six months ended July 1, 2016, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted primarily from lower foreign rates on permanently reinvested earnings of the Company's foreign subsidiaries, tax credits, and the domestic production activity benefit. These benefits were partially offset by state taxes.

The Company's federal tax returns for 2013 forward, state tax returns for 2012 forward, and foreign tax returns from 2014 forward are subject to examination by tax authorities.

The Company has obtained tax incentives in Switzerland that are effective through March 2019 that result in a rate reduction provided that the Company meets specified criteria. Upon expiration, the Company may renew the arrangement on demand, as long as the applicable law and operating criteria remain in place. The effect of the tax incentives were not material to the Company's income tax provision for the three and six months ended June 30, 2017 or July 1, 2016.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

10. Earnings Per Share

Basic earnings per share ("EPS") amounts are computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted EPS amounts are computed by dividing net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. Potentially dilutive common shares include shares issuable upon the exercise of outstanding stock options and vesting of RSUs, which are reflected in diluted earnings per share by application of the treasury stock method.

The following table presents the calculation of basic and diluted earnings per share:

	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Net income	\$13,726	\$8,917	\$24,254	\$12,178
Weighted average shares used to compute basic earnings per share	37,330	36,607	37,232	36,772
Dilutive effect of employee stock plans	1,395	987	1,411	955
Weighted average shares used to compute diluted earnings per share	38,725	37,594	38,643	37,727
Earnings per share:				
Basic	\$0.37	\$0.24	\$0.65	\$0.33
Diluted	\$0.35	\$0.24	\$0.63	\$0.32

The Company did not exclude any potentially dilutive shares from the calculation of diluted earnings per share for the three and six months ended June 30, 2017 and July 1, 2016, as none of these shares would have been antidilutive.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

11. Segments

The Company has determined that it has a single operating and reportable segment. The Company considers operating segments to be components of the Company in which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance.

The following table summarizes total sales generated by geographic location of the customer:

	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
North America	\$73,182	\$55,051	\$136,987	\$99,227
Asia	29,744	30,293	50,096	45,930
Europe	16,289	16,075	36,742	35,719
Rest of the world	1,596	875	3,316	1,635
Total sales	\$120,811	\$102,294	\$227,141	\$182,511

Previously, the Company reported sales to U.S. customers on a standalone basis, while sales to customers in the rest of North America were included under the rest of the world caption. The Company has determined that the markets in North America share common economic characteristics and as such has combined sales to all North American countries, reclassifying our previously reported sales for the three and six month periods ended July 1, 2016 for comparability.

The following table summarizes total sales by product category:

	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Bikes	\$64,772	\$63,013	\$117,047	\$108,127
Power vehicles	56,039	39,281	110,094	74,384
Total sales	\$120,811	\$102,294	\$227,141	\$182,511

The Company's long-lived assets by geographic location are as follows:

	June 30, 2017	December 30, 2016
United States	\$30,919	\$29,344
International	3,934	2,918
Total long-lived assets	\$34,853	\$32,262

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

12. Related Party Agreements

In September 2014, the Company entered into an agreement with Compass to assist with compliance requirements pursuant to the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"). Fees paid for services provided for compliance associated with the audit of our fiscal 2015 financial statements were approximately \$135, including \$72 expensed in the six months ended July 1, 2016. This agreement expired upon completion of the services related to fiscal year 2015.

Fox Factory, Inc. has a triple-net building lease for its manufacturing and office facilities in Watsonville, California. The building is owned by Mr. Robert Fox. Rent expense under this lease was \$179 and \$480 for the three and six months ended July 1, 2016, respectively, and \$179 and \$358 for the three and six months ended June 30, 2017, respectively. The lease was amended effective April 2016 to extend the term through June 30, 2020, with monthly rental payments of \$60, which are adjusted annually for a cost-of-living increase based upon the consumer price index.

Table of Contents

ITEM 2. 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 our unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 30, 2016, as filed with the Securities and Exchange Commission ("SEC") on March 1, 2017 and our other reports and registration statements that we file with the SEC from time to time. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in the “Risk Factors” section included in Part II, Item 1A.

Unless stated otherwise or as the context otherwise requires, the terms “Company,” “FOX,” “we,” “us,” and “our” refer to Fox Factory Holding Corp. and its wholly owned operating subsidiaries, on a consolidated basis.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q report includes forward-looking statements, which are subject to the “safe harbor” created by section 27A of the Securities Act of 1933, as amended, (the "Exchange Act") and section 21E of the Securities Exchange Act of 1934, as amended. We may make forward-looking statements in our SEC filings, press releases, news articles, earnings presentations and when we are speaking on behalf of the Company. Forward-looking statements generally relate to future events or our future financial or operating performance which involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements because they contain words such as “may,” “might,” “will,” “would,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “estimate,” “predict,” “likely,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q are subject to numerous risks and uncertainties, including but not limited to risks related to:

- our ability to develop new and innovative products in our current end-markets;
- our ability to leverage our technologies and brand to expand into new categories and end-markets;
- our ability to increase our aftermarket penetration;
- our ability to accelerate international growth;
- our ability to improve operating and supply chain efficiencies;
- our future financial performance, including our sales, cost of sales, gross profit or gross margins, operating expenses, ability to generate positive cash flow and ability to maintain our profitability;
- our ability to maintain our premium brand image and high-performance products;
- our ability to maintain relationships with the professional athletes and race teams we sponsor;
- our transition of the majority of our mountain bike manufacturing operations to Taiwan and our expectations related to such transition;
- our ability to selectively add additional dealers and distributors in certain geographic markets;
- the growth of the markets in which we compete, our expectations regarding consumer preferences and our ability to respond to changes in consumer preferences;
- changes in demand for high-end suspension and ride dynamics products;
- our ability to successfully identify, evaluate and manage potential acquisitions and to benefit from such acquisitions;
- the outcome of pending litigation;
- changes in the relative proportion of profit earned in the numerous jurisdictions in which we do business and in tax legislation, case law and other authoritative guidance in those jurisdictions; and
- future economic or market conditions.

Table of Contents

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects and the outcomes of any of the events described in any forward-looking statements are subject to risks, uncertainties, and other factors. In addition to the risks, uncertainties and other factors discussed above and elsewhere in this Quarterly Report on Form 10-Q, the risks, uncertainties and other factors expressed or implied discussed in Item 1A, "Risk Factors" of Part I of our 2016 Annual Report on Form 10-K filed with the SEC on March 1, 2017 could cause or contribute to actual results differing materially from those set forth in any forward-looking statement. Moreover, we operate in a very competitive and challenging environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur. Actual results, events, or circumstances could differ materially from those contemplated by, set forth in, or underlying any forward-looking statements. For all of these forward-looking statements we claim the protection of the safe harbor for forward-looking statements in Section 27A of the Securities Act and Section 21E of the Exchange Act. The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

Critical Accounting Policies and Estimates

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 30, 2016 that have had a material impact on our condensed consolidated financial statements and related notes.

Recent Accounting Pronouncements

See Note 1 - Description of the Business, Basis of Presentation and Summary of Significant Accounting Policies to the accompanying notes to unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for information on recent accounting pronouncements.

Seasonality

Certain portions of our business are seasonal. In two of the last three fiscal years, our quarterly sales have been the lowest in the first quarter and the highest during our third quarter of the year. For example, our sales in our first and third quarters of 2016 represented 20% and 27% of our total sales for the year, respectively. We believe this historic seasonality was due to the delivery of new products. We anticipate that the diversification of our product mix will result in less seasonality in 2017.

Table of Contents

Results of Operations

The table below summarizes our results of operations:

(in thousands)	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Sales	\$120,811	\$102,294	\$227,141	\$182,511
Cost of sales	81,755	69,967	154,370	125,066
Gross profit	39,056	32,327	72,771	57,445
Operating expenses:				
Sales and marketing	7,067	6,476	13,660	13,030
Research and development	4,982	4,582	9,464	8,974
General and administrative	8,122	7,109	16,202	13,030
Amortization of purchased intangibles	696	782	1,391	1,577
Fair value adjustment of contingent consideration and acquisition-related compensation	—	2,100	1,447	3,863
Total operating expenses	20,867	21,049	42,164	40,474
Income from operations	18,189	11,278	30,607	16,971
Other expense, net:				
Interest expense	505	576	1,094	960
Other (income) expense, net	(78)	(31)	467	872
Other expense, net	427	545	1,561	1,832
Income before income taxes	17,762	10,733	29,046	15,139
Provision for income taxes	4,036	1,816	4,792	2,961
Net income	\$13,726	\$8,917	\$24,254	\$12,178

Table of Contents

The following table sets forth selected statement of income data as a percentage of sales for the periods indicated:

	For the three months ended		For the six months ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Sales	100.0 %	100.0%	100.0%	100.0%
Cost of sales	67.7	68.4	68.0	68.5
Gross profit	32.3	31.6	32.0	31.5
Operating expenses:				
Sales and marketing	5.8	6.3	6.0	7.1
Research and development	4.1	4.5	4.2	4.9
General and administrative	6.7	6.9	7.1	7.1
Amortization of purchased intangibles	0.6	0.8	0.6	0.9
Fair value adjustment of contingent consideration and acquisition-related compensation	—	2.1	0.6	2.1
Total operating expenses	17.2	20.6	18.5	22.1
Income from operations	15.1	11.0	13.5	9.4
Other expense, net:				
Interest expense	0.4	0.6	0.5	0.5
Other (income) expense, net	(0.1)	—	0.2	0.5
Other expense, net	0.3	0.6	0.7	1.0
Income before income taxes	14.8	10.4	12.8	8.4
Provision for income taxes	3.3	1.8	2.1	1.6
Net income	11.5 %	8.6 %	10.7 %	6.8 %

Three months ended June 30, 2017, compared to three months ended July 1, 2016

Sales

(in millions)	For the three months ended			
	June 30, 2017	July 1, 2016	Change (\$)	Change (%)
Bikes	\$64.8	\$63.0	\$ 1.8	2.9 %
Power Vehicles	56.0	39.3	16.8	42.7
Total sales	\$120.8	\$102.3	\$ 18.5	18.1 %

Sales for the three months ended June 30, 2017 increased approximately \$18.5 million, or 18.1%, compared to the three months ended July 1, 2016. The sales increase reflects a 42.7% increase in powered vehicle products and a 2.9% increase in bike products for the three months ended June 30, 2017 compared to the same prior year period. The increase in sales of powered vehicle products was primarily due to continued higher demand for on and off-road suspension products, including increased OEM sales. The increase in bike product sales is primarily due to the success of our current bike product lines and favorable spec positions with certain high-growth OEMs.

Cost of sales

(in millions)	For the three months ended			
	June 30, 2017	July 1, 2016	Change (\$)	Change (%)
Cost of sales	\$81.8	\$70.0	\$ 11.8	16.9 %

Cost of sales for the three months ended June 30, 2017 increased approximately \$11.8 million, or 16.9%, compared to the three months ended July 1, 2016. The increase in cost of sales was driven primarily by an increase in sales, partially offset by lower costs associated with various operational improvements and efficiencies.

Table of Contents

For the three months ended June 30, 2017, our gross margin increased 70 basis points to 32.3% compared to 31.6% for the three months ended July 1, 2016. The increase in our gross profit margin was attributable primarily to favorable product and customer mix and improved manufacturing efficiencies.

Operating expenses

(in millions)	For the three months ended			
	June 30, 2017	July 1, 2016	Change (\$)	Change (%)
Operating expenses:				
Sales and marketing	\$7.1	\$6.5	\$0.6	9.2 %
Research and development	5.0	4.6	0.4	8.7
General and administrative	8.1	7.1	1.0	14.1
Amortization of purchased intangibles	0.7	0.8	(0.1)	(12.5)
Fair value adjustment of contingent consideration and acquisition-related compensation	—	2.1	(2.1)	(100.0)
Total operating expenses	\$20.9	\$21.1	\$(0.2)	(0.9)%

Total operating expenses for the three months ended June 30, 2017 decreased approximately \$0.2 million, or 0.9%, versus the same period in 2016. When expressed as a percentage of sales, operating expenses decreased to 17.2% of sales for the three months ended June 30, 2017 compared to 20.6% of sales in the same period in 2016.

Within operating expenses, our sales and marketing expenses increased approximately \$0.6 million primarily due to an increase in employee related expenses to support the growth of our products and brands. Research and development increased approximately \$0.4 million due to investments in employee related expenses aimed at producing new products and technologies to maintain our premium position in the marketplace and to pursue new markets. General and administrative expenses increased approximately \$1.0 million, primarily due to an increase in incentive and stock-based compensation. Our general and administrative expenses included \$0.9 million associated with ongoing patent litigation activities involving a bike industry competitor, compared with \$1.1 million in the same period in 2016.

During the first quarter of 2017, all acquisition-related compensation arrangements concluded and contingent consideration payment calculations were finalized. Accordingly, we incurred no expense in the three months ended June 30, 2017, compared to \$2.1 million in the same period in 2016.

Income from operations

(in millions)	For the three months ended			
	June 30, 2017	July 1, 2016	Change (\$)	Change (%)
Income from operations	\$18.2	\$11.3	\$ 6.9	61.1 %

As a result of the factors discussed above, income from operations for the three months ended June 30, 2017 increased approximately \$6.9 million, or 61.1%, compared to income from operations for the three months ended July 1, 2016.

Other expense, net

(in millions)	For the three months ended			
	June 30, 2017	July 1, 2016	Change (\$)	Change (%)

2017 2016

Other expense, net:				
Interest expense	\$0.5	\$0.6	\$(0.1)	(16.7)%
Other (income) expense, net	(0.1)	—	(0.1)	NA
Other expense, net	\$0.4	\$0.6	\$(0.2)	(33.3)%

23

Table of Contents

Other expense, net for the three months ended June 30, 2017 decreased by approximately \$0.2 million to \$0.4 million compared to \$0.6 million for the three months ended July 1, 2016 due to a \$0.1 million decrease in interest expense.

(in millions)	For the three months ended		Change (\$)	Change (%)
	June 30, 2017	July 1, 2016		
Provision for income taxes	\$4.0	\$ 1.8	\$ 2.2	122.2 %

The effective tax rates were 22.7% and 16.9% for the three months ended June 30, 2017 and July 1, 2016, respectively.

For the three months ended June 30, 2017, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted primarily from lower tax rates in foreign jurisdictions where we do business and a \$1.6 million benefit from excess deductions on the exercise of stock options and vesting of RSUs, partially offset by state taxes.

For the three months ended July 1, 2016, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted primarily from the lower foreign tax rates and the reversal of certain tax reserves as a result of the favorable conclusion of the Company's 2011 and 2012 California Franchise Tax Board audits. Additionally, we benefited from tax credits and the domestic production activity deduction. We recognized a state tax credit of \$0.5 million, net of federal taxes, for the achievement of employment and investment milestones in connection with expansion of the Company's facility in El Cajon, California. The benefits to the effective tax rate were partially offset by state taxes.

The effective tax rate for the three months ended June 30, 2017 increased as a result of a 67% improvement in pre-tax income, while the net amount of benefits recognized solely within the quarter of occurrence, such as excess stock-compensation tax benefits and release of tax reserves on audit closure, remained relatively constant.

Additionally, we have experienced high revenue and income growth in markets with relatively high marginal tax rates, and we incurred higher, non-creditable withholding taxes on royalties paid by certain foreign jurisdictions.

(in millions)	For the three months ended		Change (\$)	Change (%)
	June 30, 2017	July 1, 2016		
Net income	\$13.7	\$ 8.9	\$ 4.8	53.9 %

As a result of the factors described above, our net income increased \$4.8 million, or 53.9%, to \$13.7 million in the three months ended June 30, 2017 from \$8.9 million for the three months ended July 1, 2016.

Six months ended June 30, 2017, compared to six months ended July 1, 2016

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 30, 2017	July 1, 2016		
Bikes	\$117.0	\$108.1	\$ 8.9	8.2 %
Power Vehicles	110.1	74.4	35.7	48.0
Total sales	\$227.1	\$182.5	\$ 44.6	24.4 %

Sales for the six months ended June 30, 2017 increased approximately \$44.6 million, or 24.4%, compared to the same period in 2016. The sales increase reflects a 48.0% increase in powered vehicle products and an 8.2% increase in bike products for the six months ended June 30, 2017 compared to the six months ended July 1, 2016. The increase in sales of powered vehicle products was primarily due to continued higher demand for on and off-road suspension products, including increased OEM sales. The increase in bike product sales is primarily due to the success of our current bike product lines and favorable spec positions with certain high-growth OEMs.

Table of Contents

Cost of sales

	For the six months ended			
(in millions)	June 30, 2017	July 1, 2016	Change (\$)	Change (%)

Cost of sales \$154.4 \$125.1 \$ 29.3 23.4 %

Cost of sales for the six months ended June 30, 2017 increased approximately \$29.3 million, or 23.4%, compared to the six months ended July 1, 2016. The increase in cost of sales was driven primarily by an increase in sales, partially offset by lower costs associated with various operational improvements and efficiencies.

For the six months ended June 30, 2017, our gross margin increased 50 basis points to 32.0% compared to 31.5% for the six months ended July 1, 2016. The increase in our gross profit margin was attributable primarily to manufacturing efficiencies.

Operating expenses

	For the six months ended			
(in millions)	June 30, 2017	July 1, 2016	Change (\$)	Change (%)
Operating expenses:				
Sales and marketing	\$13.7	\$13.0	\$ 0.7	5.4 %
Research and development	9.5	9.0	0.5	5.6
General and administrative	16.2	13.0	3.2	24.6
Amortization of purchased intangibles	1.4	1.6	(0.2)	(12.5)
Fair value adjustment of contingent consideration and acquisition-related compensation	1.4	3.9	(2.5)	(64.1)
Total operating expenses	\$42.2	\$40.5	\$ 1.7	4.2 %

Total operating expenses for the six months ended June 30, 2017 increased approximately \$1.7 million, or 4.2%, over the six months ended July 1, 2016. When expressed as a percentage of sales, operating expenses decreased to 18.5% of sales for the six months ended June 30, 2017 compared to 22.1% of sales in the six months ended July 1, 2016.

Within operating expenses, our sales and marketing expenses increased approximately \$0.7 million primarily due to an increase in employee related expenses to support the growth of our products and brands. Research and development expenses increased approximately \$0.5 million due to investments in employee related expenses aimed at producing new products and technologies to maintain our premium position in the marketplace and to pursue new markets.

General and administrative expenses increased approximately \$3.2 million primarily due to a \$1.9 million increase in incentive and stock-based compensation. Additionally, costs associated with patent litigation activities increased by \$0.9 million.

During the first quarter of 2017, all acquisition-related compensation arrangements concluded and contingent consideration payment calculations were finalized. Accordingly, we incurred no expense in the three months ended June 30, 2017 which resulted in a \$2.5 million decrease in the expense for the six months ended June 30, 2017 compared to the same period in 2016.

Income from operations

	For the six months ended			
(in millions)	June 30, 2017	July 1, 2016	Change (\$)	Change (%)

Income from operations \$30.6 \$17.0 \$ 13.6 80.0 %

As a result of the factors discussed above, income from operations for the six months ended June 30, 2017 increased approximately \$13.6 million, or 80.0%, compared to income from operations for the six months ended July 1, 2016.

Table of Contents

Other expense, net

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 30, 2017	July 1, 2016		
Other expense, net:				
Interest expense	\$1.1	\$1.0	\$0.1	10.0 %
Other expense (income), net	0.5	0.9	(0.4)	(44.4)
Other expense, net	\$1.6	\$1.9	\$(0.3)	(15.8)%

Other expense, net for the six months ended June 30, 2017 decreased by approximately \$0.3 million to \$1.6 million for the six months ended June 30, 2017, compared to \$1.9 million for the six months ended July 1, 2016. Other expense, net increased by \$0.4 million due to foreign currency transaction losses, \$0.5 million of which resulted from the settlement of Canadian Dollar denominated acquisition related compensation liability resulting from the acquisition of Race Face/Easton.

Income taxes

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 30, 2017	July 1, 2016		
Provision for income taxes	\$4.8	\$3.0	\$1.8	60.0 %

The effective tax rates were 16.5% and 19.6% for the six months ended June 30, 2017 and July 1, 2016, respectively. For the six months ended June 30, 2017, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted primarily from lower tax rates in foreign jurisdiction where we do business and a \$4.0 million benefit from excess deductions on the exercise of stock options and vesting of RSUs, partially offset by state taxes. For the six months ended July 1, 2016, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted primarily from lower foreign tax rates and the reversal of certain tax reserves as a result of the conclusion of the Company's 2011 and 2012 California Franchise Tax Board audits. Additionally, we benefited from tax credits. These benefits were partially offset by state taxes.

The effective tax rate for the six months ended June 30, 2017 decreased as a result of a \$2.5 million increase in the net amount of benefits recognized solely within the quarter of occurrence, primarily excess stock-compensation tax benefits in the six months ended June 30, 2017. The benefit of such discrete items was partially offset by the tax effect of higher revenue and income growth in markets with relatively high marginal tax rates and non-creditable withholding taxes on royalties paid by certain foreign jurisdictions.

Net income

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 30, 2017	July 1, 2016		
Net income	\$24.3	\$12.2	\$12.1	99.2 %

As a result of the factors described above, our net income increased \$12.1 million, or 99.2%, to \$24.3 million in the six months ended June 30, 2017 from \$12.2 million for the six months ended July 1, 2016.

Table of Contents

Liquidity and Capital Resources

Our primary cash needs are to support working capital, capital expenditures, acquisitions and acquisition-related compensation, debt repayments and stock repurchases. We have generally financed our historical liquidity needs with operating cash flows and borrowings under our credit facilities. These sources of liquidity may be impacted by various factors, including demand for our products, investments made by us in acquired businesses, our plant and equipment and other capital expenditures, and expenditures on general infrastructure and information technology. A summary of our operating, investing and financing activities are shown in the following table:

(in thousands)	For the six months ended	
	June 30, 2017	July 1, 2016
Net cash provided by operating activities	\$21,013	\$810
Net cash used in investing activities	(5,347)	(6,875)
Net cash (used in) provided by financing activities	(7,659)	9,040
Effect of exchange rate changes on cash	58	205
Increase in cash and cash equivalents	\$8,065	\$3,180

Operating activities

Cash provided by operating activities consists of net income, adjusted for certain non-cash items such as depreciation and amortization, stock-based compensation, changes in deferred income taxes, recognition of acquired inventory step up adjustments, fair value adjustments of our contingent consideration, and net cash invested in working capital.

In the six months ended June 30, 2017, cash provided by operating activities was \$21.0 million and consisted of net income of \$24.3 million plus non-cash items totaling \$2.0 million less changes in operating assets and liabilities totaling \$5.2 million. Non-cash items and other adjustments consisted of depreciation and amortization of \$4.7 million, stock-based compensation of \$4.3 million, offset by a \$6.8 million increase in deferred taxes. Our investment in operating assets and liabilities is primarily a result of an increase in inventory of \$17.4 million, and a decrease in accrued expenses and deferred rent of \$6.9 million, offset by increases in accounts payable of \$14.0 million and income taxes payable of \$6.1 million. The increase in inventory and accounts payable are due to the seasonal impact on working capital. The decrease in accrued expenses was due to the payment of \$7.9 million of acquisition related compensation, partially offset by an increase in accrued warranty.

In the six months ended July 1, 2016, cash provided by operating activities was \$0.8 million and consisted of net income of \$12.2 million plus non-cash items totaling \$2.5 million less changes in operating assets and liabilities totaling \$13.8 million. Non-cash items and other adjustments consisted of depreciation and amortization of \$4.1 million, and stock-based compensation of \$3.1 million, fair value adjustments of contingent consideration of \$0.8 million, partially offset by a \$6.0 million increase in deferred taxes. Our investment in operating assets and liabilities is a result of an increase in accounts receivable of \$12.9 million, an increase in inventory of \$12.6 million, a decrease in accrued expenses and deferred rent of \$3.8 million, an increase in prepaids and other assets of \$2.1 million, offset by increases in accounts payable of \$17.3 million and income taxes payable of \$0.5 million. The increase in accounts receivable, inventory and accounts payable are due to the seasonal impact on working capital. The decrease in accrued expenses was primarily due to payment of \$6.5 million of acquisition related compensation, partially offset by the accrual of 2016 acquisition related compensation.

Investing activities

Cash used in investing activities relates to investments in our manufacturing and general infrastructure through the procurement of property and equipment. In the six months ended June 30, 2017 and July 1, 2016, cash used in investing activities was \$5.3 million and \$6.9 million, respectively, which consisted primarily of purchases of property and equipment.

Financing activities

Cash used in or provided by financing activities primarily relates to changes in our capital structure, including the various forms of debt and equity instruments used to finance our business.

In the six months ended June 30, 2017, net cash used in financing activities was \$7.7 million. We paid \$5.4 million for the 2016 portion of our contingent consideration liability, \$1.9 million in installments on our term debt and \$0.4 million of repurchases of our common stock, net of proceeds from the exercise of options as part of our stock-based compensation program.

In the six months ended July 1, 2016, net cash provided by financing activities was \$9.0 million. We received \$26.2 million in financing under the Second Amended and Restated Credit Facility, including net proceeds of \$17.0 million under our line of credit.

Table of Contents

On May 11, 2016, the line of credit and term loan were refinanced into a new \$75.0 million term loan through an amendment and restatement of our Amended and Restated 2013 Credit Facility. As a result, we received \$9.2 million in term debt proceeds. Additionally, the amount available under our line of credit was increased to \$100.0 million. The increase in debt financing was offset by \$7.9 million paid to repurchase 500,000 shares of our common stock under our stock repurchase program authorized by our Board of Directors in February 2016, \$6.9 million paid for the 2015 portion of our contingent consideration liability, \$1.6 million paid on our term debt, and \$0.7 million of net repurchases of our common stock as part of our stock-based compensation program.

Second Amended and Restated Credit Facility

In August 2013, we entered into the 2013 Credit Facility with Sun Trust Bank and other named lenders. The 2013 Credit Facility provided a revolving line of credit. On March 31, 2014, in connection with our asset purchase of Sports Truck, we amended and restated the 2013 Credit Facility. The Amended and Restated Credit Facility provided a maturing secured Term Loan in the principal amount of \$50.0 million, subject to quarterly amortization payments, and extended the term of the 2013 Credit Facility through March 31, 2019. The proceeds of the Term Loan were used, in part, to fund the acquisition of Sport Truck and to pay down the revolving line of credit provided under the 2013 Credit Facility. On December 12, 2014, we amended the existing Amended and Restated 2013 Credit Facility. The First Amendment increased the Term Loan by the principal amount of \$30.0 million to a total of \$56.8 million, subject to quarterly amortization payments, and extended the maturity of the Amended and Restated 2013 Credit Facility through December 12, 2019. The additional proceeds of the Term Loan made available through the First Amendment were used to partially fund the acquisition of Race Face/Easton. Additional amendments entered into on May 29, 2015 and March 31, 2016 respectively, made minor technical changes to the Amended and Restated 2013 Credit Facility. On May 11, 2016, we amended and restated the existing Amended and Restated 2013 Credit Facility. Further technical amendments were made on August 11, 2016 and June 12, 2017. The Second Amended and Restated Credit Facility provided a maturing secured Term Loan in the principal amount of \$75.0 million, subject to quarterly amortization payments, increased the availability on the line of credit to \$100.0 million, and extended the maturity of the Second Amended and Restated Credit Facility through May 11, 2021.

The Second Amended and Restated Credit Facility is secured by substantially all of our assets, restricts our ability to make certain payments and engage in certain transactions, and also requires that we satisfy customary financial ratios, including a fixed charge coverage ratio of not less than 1.5:1.0 and a leverage ratio of not greater than 3.0:1.0, with both ratios calculated as defined in the Second Amended and Restated Credit Facility. Additionally, certain disposal events can trigger prepayments. We were in compliance with the covenants as of June 30, 2017.

Other Commitments

No material contractual obligation has changed since the Company's Annual Report on Form 10-K for the year ended December 30, 2016, as filed with the SEC on March 1, 2017.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Inflation

Historically, inflation has not had a material effect on our results of operations. However, significant increases in inflation, particularly those related to wages and increases in the cost of raw materials could have an adverse impact on our business, financial condition or results of operations.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the disclosures discussed in the section “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and filed with the SEC on March 1, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, under the direction and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company 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. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q 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 our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, 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. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A lawsuit was filed on December 17, 2015 by SRAM Corporation ("SRAM") in the U.S. District Court, Northern District of Illinois, against the Company's wholly owned subsidiary, RFE Canada Holding Corp. ("RFE Canada"). The lawsuit alleges patent infringement of U.S. Patent number 9,182,027 ("027 Patent") and violation of the Lanham Act. SRAM filed a second lawsuit in the same court against RFE Canada on May 16, 2016. That lawsuit alleges patent infringement of U.S. patent number 9,291,250 ("250 Patent"). The Company believes the lawsuits are without merit and intends to vigorously defend itself. As such, the Company has filed, before the U. S. Patent and Trademark Appeals Board ("PTAB"), for three separate Interparties Reviews ("IPR") of the '027 Patent and for a Post Grant Review ("PGR") of the '250 Patent. All of the Company-filed IPRs of the '027 patent have been instituted for trial by the PTAB. In addition to instituting the Company's IPR Petitions, the PTAB stayed a third party ex-parte re-exam of SRAM's '027 Patent. The PGR has been denied institution by the PTAB based on its interpretation of the '250 Patent filing date versus the America Invents Act effectivity date. In its denial opinion, the PTAB preserved the Company's prior art grounds for subject patent invalidity as stated within the PGR petition. The Company has filed an IPR Petition asserting prior art invalidity grounds against the '250 Patent. The PTAB's decision on the '250 Patent IPR is pending.

In a separate action the Company filed a lawsuit on January 29, 2016 in the U.S. District Court, Northern District of California against SRAM. That lawsuit alleges SRAM's infringement of two separate Company-owned patents, specifically U.S. Patent numbers 6,135,434 and 6,557,674. A second lawsuit was filed by the Company on July 1, 2016 in the U.S. District Court, Northern District of California against SRAM alleging SRAM's infringement of the Company's U.S. Patent numbers 8,226,172 and 8,974,009.

The SRAM lawsuits against the Company have been stayed by the Court in Illinois pending a PTAB determination in the Company filed SRAM patent reviews. Meanwhile the Company filed lawsuits have moved forward as scheduled by the courts. Due to the early stage of this lawsuit and the inherent uncertainties of litigation, the Company is not able to predict either the outcome or a range of reasonably possible losses, if any, at this time. Accordingly, no amounts have been recorded in the condensed consolidated financial statements for the settlement of these matters. Were an unfavorable ruling to occur, or if factors indicate that a loss is probable and reasonably estimable, the Company's business, financial condition or results of operations could be materially and adversely affected.

The Company is involved in other legal matters that arise in the ordinary course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

Our business, financial condition, operating results and prospects could be materially and adversely affected by various risks and uncertainties. In addition to the risks and uncertainties discussed elsewhere, you should carefully consider the risks and uncertainties described below. If any of the risks actually occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline.

Risks related to our business

If we are unable to continue to enhance existing products and develop, manufacture and market new products that respond to consumer needs and preferences and achieve market acceptance, we may experience a decrease in demand for our products, and our business and financial results could suffer.

Our growth strategy involves the continuous development of innovative performance products. We may not be able to compete as effectively with our competitors, and ultimately satisfy the needs and preferences of our customers and the

end users of our products, unless we can continue to enhance existing products and develop new, innovative products in the global markets in which we compete. In addition, we must continuously compete not only for end users who purchase our products through the dealers and distributors who are our customers, but also for the OEMs, which incorporate our products into their bikes and powered vehicles. These OEMs regularly evaluate our products against those of our competitors to determine if they are allowing the OEMs to achieve higher sales and market share on a cost-effective basis. Should one or more of our OEM customers determine that they could achieve overall better financial results by incorporating a competitor's new or existing product, they would likely do so, which could harm our business, financial condition or results of operations.

Table of Contents

Product development requires significant financial, technological and other resources. While we expended approximately \$18.5 million, \$17.0 million and \$13.6 million for our research and development efforts in 2016, 2015 and 2014, respectively, there can be no assurance that this level of investment in research and development will be sufficient in the future to maintain our competitive advantage in product innovation, which could cause our business, financial condition or results of operations to suffer.

Product improvements and new product introductions require significant planning, design, development and testing at the technological, product and manufacturing process levels, and we may experience unanticipated delays in our introduction of product improvements or new products. Our competitors' new products may beat our products to market, be more effective and/or less expensive than our products, obtain better market acceptance or render our products obsolete. Any new products that we develop may not receive market acceptance or otherwise generate any meaningful sales or profits for us relative to our expectations. In addition, one of our competitors could develop an unforeseen and entirely new product or technology that renders our products less desirable or obsolete, which could negatively affect our business, financial condition or results of operations.

We face intense competition in all product lines, including from some competitors that may have greater financial and marketing resources. Failure to compete effectively against competitors would negatively impact our business and operating results.

The ride dynamics industry is highly competitive. We compete with a number of other manufacturers that produce and sell ride dynamics products to OEMs and aftermarket dealers and distributors, including OEMs that produce their own lines of products for their own use. Our continued success depends on our ability to continue to compete effectively against our competitors, some of which have significantly greater financial, marketing and other resources than we have. Also, several of our competitors offer broader product lines to OEMs, which they may sell in connection with suspension products as part of a package offering. In the future, our competitors may be able to maintain and grow brand strength and market share more effectively or quickly than we do by anticipating the course of market developments more accurately than we do, developing products that are superior to our products, creating manufacturing or distribution capabilities that are superior to ours, producing similar products at a lower cost than we can or adapting more quickly than we do to new technologies or evolving regulatory, industry or customer requirements, among other possibilities. In addition, we may encounter increased competition if our current competitors broaden their product offerings by beginning to produce additional types of ride dynamics products or through competitor consolidations. We could also face competition from well-capitalized entrants into the performance suspension and ride dynamics product market, as well as aggressive pricing tactics by other manufacturers trying to gain market share. As a result, our products may not be able to compete successfully with our competitors' products, which could negatively affect our business, financial condition or results of operations.

Our business is sensitive to economic conditions that impact consumer spending. Our suspension and ride dynamics products, and the bike and powered vehicles into which they are incorporated, are discretionary purchases and may be adversely impacted by changes in the economy.

Our business depends substantially on global economic and market conditions. In particular, we believe that currently a significant majority of the end users of our products live in the United States and countries in Europe. These areas are either in the process of recovering from recession or, in some cases, are still struggling with recession, disruption in banking and/or financial systems, economic weakness and uncertainty. In addition, our products are recreational in nature and are generally discretionary purchases by consumers. Consumers are usually more willing to make discretionary purchases during periods of favorable general economic conditions and high consumer confidence.

Discretionary spending may also be affected by many other factors, including interest rates, the availability of consumer credit, taxes and consumer confidence in future economic conditions. During periods of unfavorable economic conditions, or periods when other negative market factors exist, consumer discretionary spending is typically reduced, which in turn could reduce our product sales and have a negative effect on our business, financial condition or results of operations.

There could also be a number of secondary effects resulting from an economic downturn, such as insolvency of our suppliers resulting in product delays, an inability of our OEM and distributor and dealer customers to obtain credit to finance purchases of our products, customers delaying payment to us for the purchase of our products due to financial

hardship or an increase in bad debt expense. Any of these effects could negatively affect our business, financial condition or results of operations.

If we are unable to maintain our premium brand image, our business may suffer.

Our products are selected by both OEMs and dealers and distributors in part because of the premium brand reputation we hold with them and our end users. Therefore, our success depends on our ability to maintain and build the image of our brands. We have focused on building our brands through producing products or acquiring businesses that produce products that we believe are innovative, high in performance and highly reliable. In addition, our brands benefit from our strong relationships with our OEM customers and dealers and distributors and through marketing programs aimed at bike and powered vehicle enthusiasts in various media and other channels. For example, we sponsor a number of professional athletes and professional race teams. In order to continue to enhance our brand image, we will need to maintain our position in the suspension and ride dynamics products industry and continue to provide high quality products and services. Also, we will need to continue to invest in sponsorships, marketing and public relations.

Table of Contents

There can be no assurance, however, that we will be able to maintain or enhance the strength of our brands in the future. Our brands could be adversely impacted by, among other things:

- failure to develop new products that are innovative, high in performance and reliable;
- internal product quality control issues;
- product quality issues on the bikes and powered vehicles on which our products are installed;
- product recalls;
- high profile component failures (such as a component failure during a race on a mountain bike ridden by an athlete that we sponsor);
- negative publicity regarding our sponsored athletes;
- high profile injury or death of one of our sponsored athletes;
- inconsistent uses of our brand and our other intellectual property assets, as well as failure to protect our intellectual property; and
- changes in consumer trends and perceptions.

Any adverse impact on our brand could in turn negatively affect our business, financial condition or results of operations.

A significant portion of our sales are highly dependent on the demand for high-end bikes and a material decline in the demand for these bikes or their suspension components could have a material adverse effect on our business or results of operations.

During 2016, approximately 56% of our sales were generated from the sale of bike products. Part of our success has been attributable to the growth in the high-end bike industry, including increases in average retail sales prices, as better-performing product designs and technologies have been incorporated into these products. If the popularity of high-end or premium-priced bikes does not increase or declines, the number of bike enthusiasts seeking such bikes or premium priced suspension products, wheels, cranks and other specialty components for their bikes does not increase or declines, or the average price point of these bikes declines, we may fail to achieve future growth or our sales could decrease, and our business, financial condition or results of operations could be negatively affected. In addition, if current bike enthusiasts stop purchasing our products due to changes in preferences, we may fail to achieve future growth or our sales could be decreased, and our business, financial condition or results of operations could be negatively affected.

Our growth in the powered vehicle category is dependent upon our continued ability to expand our product sales into powered vehicles that require performance suspension and the continued expansion of the market for these powered vehicles.

Our growth in the powered vehicle category is in part attributable to the expansion of the market for powered vehicles that require performance suspension products. Such market growth includes the creation of new classes of vehicles that need our products, such as Side-by-Sides, and our ability to create products for these vehicles. In the event these markets stopped expanding or contracted, or we are unsuccessful in creating new products for these markets or other competitors successfully enter into these markets, we may fail to achieve future growth or our sales could decrease, and our business, financial condition or results of operations could be negatively affected.

Changes in our customer, channel and product mix could place more rigorous demands on our infrastructure and cause our profitability percentages to fluctuate.

From time to time, we may experience changes in our customer, channel and product mix from changes in demands from existing customers due to shifts in their products and markets. Additionally, the Company may pursue new customers and markets. Such changes in customers, channel and product mix could place more rigorous demands on our infrastructure and supply chain and could result in changes to our profitability and profitability percentages. If customers begin to require more lower-margin products from us and fewer higher-margin products, or place demands on our performance that increase our costs, our business, results of operations and financial condition may suffer.

Table of Contents

A disruption in the operations of our manufacturing facilities could have a negative effect on our business, financial condition or results of operations.

Over the last several years, we transitioned the majority of our bike suspension component product manufacturing to our bike suspension component facility in Taichung, Taiwan. In the future, we may move additional manufacturing operations as we re-balance existing facilities or expand to new manufacturing locations. As a result, we have incurred, and may continue to incur costs associated with some duplication of facilities, equipment and personnel, the amount of which could vary materially from our projections. In addition, we could encounter unforeseen difficulties resulting from the distance and time zone differences between our various facilities.

Equipment failures, delays in deliveries or catastrophic loss at any of our facilities could lead to production or service disruptions, curtailments or shutdowns. In the event of a stoppage in production or a slowdown in production due to high employee turnover or a labor dispute at any of our facilities, even if only temporary, or if we experience delays as a result of events that are beyond our control, delivery times to our customers could be severely affected. If there was a manufacturing disruption in any of our manufacturing facilities, we might be unable to meet product delivery requirements and our business, financial condition or results of operations could be negatively affected, even if the disruption was covered in whole or in part by our business interruption insurance. Any significant delay in deliveries to our customers could lead to increased returns or cancellations, expose us to damage claims from our customers or damage our brand and, in turn, negatively affect our business, financial condition or results of operations.

Work stoppages or other disruptions at seaports could adversely affect our operating results.

A significant portion of our goods move through ports on the Western Coast of the United States. We have a global supply chain and we import products from our third party vendors as well as our Fox Taiwan facility into the United States largely through ports on the West Coast. Freight arriving at West Coast ports must be offloaded from ships by longshoremen, none of whom are our employees. We do not control the activities of these employees or seaports and we could suffer supply chain disruptions due to any disputes, capacity shortages, slowdowns or shutdowns which may occur, as was experienced in February, 2015, in relation to certain West Coast ports. While the West Coast ports labor dispute ended with a five year agreement, it lasted longer than we forecasted, and any similar labor dispute in the future could potentially have a negative effect on both our financial condition and results of operations.

Our business depends substantially on the continuing efforts of our senior management, and our business may be severely disrupted if we lose their services.

We are heavily dependent upon the contributions, talent and leadership of our senior management team, particularly our Chief Executive Officer, Larry L. Enterline. We do not have a "key person" life insurance policy on Mr. Enterline or any other key employees. We believe that the top twelve members of our senior management team are key to establishing our focus and executing our corporate strategies as they have extensive knowledge of our systems and processes. Given our senior management team's knowledge of the suspension products industry and the limited number of direct competitors in the industry, we believe that it could be difficult to find replacements should any of the members of our senior management team leave. Our inability to find suitable replacements for any of the members of our senior management team could negatively affect our business, financial condition or results of operations.

We depend on skilled engineers to develop and create our products, and the failure to attract and retain such individuals could adversely affect our business.

We rely on skilled and well-trained engineers for the design and production of our products, as well as in our research and development functions. Competition for such individuals is intense, particularly in Silicon Valley near where our headquarters are located. Our inability to attract or retain qualified employees in our design, production or research and development functions or elsewhere in our Company could result in diminished quality of our products and delinquent production schedules, impede our ability to develop new products and harm our business, financial condition or results of operations.

We may not be able to sustain our past growth or successfully implement our growth strategy, which may have a negative effect on our business, financial condition or results of operations.

We grew our sales from approximately \$366.8 million in 2015 to approximately \$403.1 million in 2016. This growth rate may be unsustainable. Our future growth will depend upon various factors, including the strength of the image of our brands, our ability to continue to produce innovative suspension and ride dynamics products, consumer acceptance

of our products, competitive conditions in the marketplace, our ability to make strategic acquisitions, the growth in emerging markets for products requiring high-end suspension products and, in general, the continued growth of the high-end bike and powered vehicle markets into which we sell our products. Our beliefs regarding the future growth of markets for high-end suspension products are based largely on qualitative judgments and limited sources and may not be reliable. If we are unable to sustain our past growth or successfully implement our growth strategy, our business, financial condition or results of operations could be negatively affected.

Table of Contents

The professional athletes and race teams who use our products are an important aspect of the image of our brands. The loss of the support of professional athletes for our products or the inability to attract new professional athletes may harm our business.

If our products are not used by current or future professional athletes and race teams, our brands could lose value and our sales could decline. While our sponsorship agreements typically restrict our sponsored athletes and race teams from promoting, endorsing or using competitors' products that compete directly within our product categories during the term of the sponsorship agreements, we do not typically have long-term contracts with any of the athletes or race teams whom we sponsor.

If we are unable to maintain our current relationships with these professional athletes and race teams, if these professional athletes and race teams are no longer popular, if our sponsored athletes and race teams fail to have success or if we are unable to continue to attract the endorsement of new professional athletes and race teams in the future, the value of our brands and our sales could decline.

We depend on our relationships with dealers and distributors and their ability to sell and service our products. Any disruption in these relationships could harm our sales.

We sell our aftermarket products to dealers and distributors, and we depend on their willingness and ability to market and sell our products to consumers and provide customer and product service as needed. We also rely on our dealers and distributors to be knowledgeable about our products and their features. If we are not able to educate our dealers and distributors so that they may effectively sell our products as part of a positive buying experience, or if they fail to implement effective retail sales initiatives, focus selling efforts on our competitors' products, reduce the quantity of our products that they sell or reduce their operations due to financial difficulties or otherwise, our brand and business could suffer.

We do not control our dealers or distributors and many of our contracts allow these entities to offer our competitors' products. Our competitors may incentivize our dealers and distributors to favor their products. In addition, we do not have long-term contracts with a majority of our dealers and distributors, and our dealers and distributors are not obligated to purchase specified amounts of our products. In fact, the majority of our dealers and distributors buy from us on a purchase order basis. Consequently, with little or no notice, many of these dealers and distributors may terminate their relationships with us or materially reduce their purchases of our products. If we were to lose one or more of our dealers or distributors, we would need to obtain a new dealer or distributor to cover the particular location or product line, which may not be possible on favorable terms or at all.

Alternatively, we could use our own sales force to replace such a dealer or distributor, but expanding our sales force into new locations takes a significant amount of time and resources and may not be successful. Further, many of our international distribution contracts contain exclusivity arrangements, which may prevent us from replacing or supplementing our current distributors under certain circumstances.

We are a supplier in the high-end bike and powered vehicles markets, and our business is dependent in large part on the orders we receive from our OEM customers and from their success.

As a supplier to OEM customers, we are dependent in large part on the success of the business of our OEM customers. Model year changes by our OEM customers may adversely impact our sales or cause our sales to vary from quarter to quarter. In addition, losses in market share individually or a decline in the overall market of our OEM customers or the discontinuance by our OEM customers of their products which incorporate our products could negatively impact our business, financial condition or results of operations. For example, if our bike producing OEM customers reduce production of their high-end bikes, their orders to us for our products would in turn be reduced, which could negatively affect our business, financial condition or results of operations.

A relatively small number of customers account for a substantial portion of our sales. The loss of all or a substantial portion of our sales to any of these customers, whether through the temporary or permanent discontinuation of their products which incorporate our products or otherwise, or the loss of market share by these customers could have a material adverse impact on us and our results of operations.

Sales attributable to our five largest OEM customers, which can vary from year to year, collectively accounted for approximately 30%, 32%, and 34% of our sales in fiscal years 2016, 2015 and 2014, respectively. The loss of all or a substantial portion of our sales to any of these OEM customers, whether through the temporary or permanent

discontinuation of their products which incorporate our products or otherwise, or the loss of market share by these customers could have a material adverse impact on our business, financial condition or results of operations. In particular, sales to Giant, an OEM and contract manufacturer used by certain of our bike OEM customers, accounted for approximately 14%, 12%, and 14% of our sales in 2016, 2015, and 2014, respectively. In the event Giant were to experience manufacturing or other problems, or were to fail to pay us, it could have a material adverse impact on our business, financial condition or results of operations.

Table of Contents

Currency exchange rate fluctuations could impact gross margins and expenses.

Foreign currency fluctuations could in the future have an adverse effect on our business, financial condition or results of operations. We sell our products inside and outside of the United States primarily in U.S. Dollars. However, some of the OEMs purchasing products from us sell their products in Europe and other foreign markets using the Euro and other foreign currencies. As a result, as the U.S. Dollar appreciates against these foreign currencies, our products will become relatively more expensive for these OEMs. Accordingly, competitive products that our OEM customers can purchase in other currencies may become more attractive and we could lose sales as these OEMs seek to replace our products with cheaper alternatives. In addition, should the U.S. Dollar depreciate significantly, this could have the effect of decreasing our gross margins and adversely impact our business, financial condition or results of operations. With a majority of our manufacturing operations for our bike products occurring in Taiwan, a percentage of our sales and expenses are denominated in the New Taiwan Dollar. Should the New Taiwan Dollar appreciate against the U.S. Dollar, this could have the effect of decreasing our sales, increasing our expenses, and decreasing our profitability.

Additionally, with the acquisition of Race Face/Easton in 2014, certain of our operations take place in Canada and a percentage of our sales and expenses are denominated in Canadian Dollars. Our operating profitability could be negatively impacted as a result of changes in the exchange rate between the U.S. Dollar and the Canadian Dollar.

Our international operations are exposed to risks associated with conducting business globally.

As a result of our international presence, we are exposed to increased risks inherent in conducting business outside of the United States. In addition to foreign currency risks, these risks include:

- difficulty in transporting materials internationally, including labor disputes at West Coast ports, which handle a large amount of our products;
- increased difficulty in protecting our intellectual property rights and trade secrets;
- changes in tax laws and the interpretation of those laws;
- exposure to local economic conditions;
- unexpected government action or changes in legal or regulatory requirements;
- geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war and other political uncertainty;
- changes in tariffs, quotas, trade barriers and other similar restrictions on sales;
- the effects of any anti-American sentiments on our brands or sales of our products;
 - increased difficulty in ensuring compliance by employees, agents and contractors with our policies as well as with the laws of multiple jurisdictions, including but not limited to the U.S. Foreign Corrupt Practices Act, local international environmental, health and safety laws, and increasingly complex regulations relating to the conduct of international commerce;
- increased difficulty in controlling and monitoring foreign operations from the United States, including increased difficulty in identifying and recruiting qualified personnel for our foreign operations; and
- increased difficulty in staffing and managing foreign operations or international sales.

An adverse change in any of these conditions could have a negative effect upon our business, financial condition or results of operations.

Our sales could be adversely impacted by the disruption or cessation of sales by other bike component manufacturers or if other bike component manufacturers enter into the specialty bike component market.

Most of the bikes incorporating our suspension products also utilize products and components manufactured by other bike component manufacturers. If such component manufacturers were to cease selling their products and components on a stand-alone basis, their sales are disrupted, or their competitive market position or reputation is diminished, customers could migrate to competitors that sell complementary bike products which we do not sell. Moreover, such bike component manufacturers could begin manufacturing bike suspension products, wheels, or cranks, or bundle their bike components with suspension products, wheels or cranks manufactured by competitors. If any of the foregoing were to occur, our sales could decrease and our business, financial condition or results of operations could suffer.

Table of Contents

We have been and may become subject to intellectual property disputes that could cause us to incur significant costs or pay significant damages or that could prohibit us from selling our products.

As we develop new products or attempt to utilize our brands in connection with new products, we seek to avoid infringing the valid patents and other intellectual property rights of our competitors. However, from time to time, third parties have alleged, or may allege in the future, that our products and/or trademarks infringe upon their proprietary rights. We will evaluate any such claims and, where appropriate, may obtain or seek to obtain licenses or other business arrangements. To date, there have been no significant interruptions in our business as a result of any claims of infringement, and we do not hold patent infringement insurance. Any claim, regardless of its merit, could be expensive, time consuming to defend and distract management from our business. Moreover, if our products or brands are found to infringe third-party intellectual property rights, we may be unable to obtain a license to use such technology or associated intellectual property rights on acceptable terms. A court determination that our brands, products or manufacturing processes infringe the intellectual property rights of others could result in significant liability and/or require us to make material changes to our products and/or manufacturing processes or preclude our ability to use certain brands. In most circumstances, we are not indemnified for our use of a licensor's intellectual property, if such intellectual property is found to be infringing. Any of the foregoing results could cause us to redesign our products or defend legal actions, which could cause us to incur substantial costs that could negatively affect our business, financial condition or results of operations.

If we are unable to enforce our intellectual property rights, our reputation and sales could be adversely affected. Intellectual property is an important component of our business. We patent our proprietary technologies related to vehicle suspension and other products in the U.S. and various foreign patent offices. Additionally, we have registered or have applied for trademarks and service marks with the United States Patent and Trademark Office and a number of foreign countries, including the marks FOX[®], FOX RACING SHOXS[®], RACE FACE[®] and REDEFINE YOUR LIMITS[®], to be utilized with certain goods and services. When appropriate, we may from time to time assert our rights against those who infringe on our patents, trademarks, trade dress, or other intellectual property. We may not, however, be successful in enforcing our patents or asserting trademark, trade name or trade dress protection with respect to our brand names and our product designs, and third parties may seek to oppose or challenge our patents or trademark registrations. Further, these legal efforts may not be successful in reducing sales of suspension products by those infringing. In addition, our pending patent applications may not result in the issuance of patents, and even issued patents may be contested, circumvented or invalidated and may not provide us with proprietary protection or competitive advantages. If our efforts to develop and enforce our intellectual property are unsuccessful, or if a third party misappropriates our rights, this may adversely affect our business, financial condition or results of operations. Additionally, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States, and it may be more difficult for us to successfully challenge the use of our proprietary rights by other parties in these countries.

Furthermore, other competitors may be able to successfully produce products which imitate certain of our products without infringing upon any of our patents, trademarks or trade dress. The failure to prevent or limit infringements and imitations, could have a permanent negative impact on the pricing of our products or reduce our product sales and product margins, even if we are ultimately successful in limiting the distribution of a product that infringes our rights, which in turn may affect our business, financial condition or results of operations.

Although we enter into non-disclosure agreements with employees, OEMs, distributors and others to protect our confidential information and trade secrets, we may be unable to prevent such parties from breaching these agreements with us and using our intellectual property in an unauthorized manner. If our efforts to protect our intellectual property are unsuccessful, or if a third party misappropriates our rights, our business may be adversely affected. Defending our intellectual property rights can be very expensive and time consuming, and there is no assurance that we will be successful.

If we inaccurately forecast demand for our products, we may manufacture insufficient or excess quantities or our manufacturing costs could increase, which could adversely affect our business.

We plan our manufacturing capacity based upon the forecasted demand for our products. In the OEM channel, our forecasts are based in large part on the number of our product specifications for new bikes and powered vehicles and

on projections from our OEM customers. In the aftermarket channel, our forecasts are based partially on discussions with our dealers and distributors as well as our own assessment of markets. If we incorrectly forecast demand we may incur capacity issues in our manufacturing plant and supply chain, increased material costs, increased freight costs, additional overtime, and costs associated with excess inventory, all of which in turn adversely impact our cost of sales and our gross margin. Economic weakness and uncertainty in the United States, Europe and other countries may make accurate forecasting particularly challenging.

In the future, if actual demand for our products exceeds forecasted demand, the margins on our incremental sales in excess of anticipated sales may be lower due to temporary higher costs, which could result in a decrease in our overall margins. While we generally manufacture our products upon receipt of customer orders, if actual demand is less than the forecasted demand for our products and we have already manufactured the products or committed to purchase materials in support of forecasted demand, we could be forced to hold excess inventories. In short, either excess or insufficient production due to inaccurate forecasting could have a negative effect on our business, financial condition or results of operations.

Table of Contents

Product recalls, and significant product repair and/or replacement due to product warranty costs and claims have had, and in the future could have, a material adverse impact on our business.

Unless otherwise required by law, we generally provide a limited warranty for our products for a one or two year period beginning on: (i) in the case of OEM sales, the date the bike or powered vehicle is purchased from an authorized OEM where our product is incorporated as original equipment on the purchased bike or powered vehicle; or (ii) in the case of aftermarket sales, the date the product is originally purchased from an authorized dealer. From time to time, our customers may negotiate for longer or different warranty coverage. In the ordinary course of business, we incur warranty costs and reserve against such costs in our financial statements. However, there is a risk that we could experience higher than expected warranty costs if we become aware of an underperforming product. For example, in 2012 we increased our reserve and included additional costs of approximately \$1.8 million to reflect the costs of repairing or replacing certain dampers in our suspension products and experienced other related costs of approximately \$1.0 million. In the future, we may encounter similar situations and be forced to make other adjustments to our warranty reserves or incur costs in excess of these reserves which could adversely affect our results of operations.

Our products and items where our product is incorporated as original equipment on the purchased item are subject to regulation by various agencies, including the National Highway Traffic Safety Administration, the U. S. Consumer Product Safety Commission and similar state and international regulatory authorities. We have had in the past, and may have in the future, recalls (both voluntary and involuntary) of our products or of items that incorporate our products. For example, on October 12, 2016, we initiated a voluntary recall of certain bicycle Float X2 shock absorber products shipped before September 9, 2016. Most recently, we announced a recall of approximately 2,460 of Fox's Harley-Davidson specific aftermarket motorcycle shock absorbers. In addition to the direct costs related to these or other recalls, in the future, we may be forced to undertake such recalls which could adversely affect our aftermarket and OEM sales if we or our OEM customer do not have a replacement for such recalled product ready in a timely manner. Such recall events could also adversely affect our brand image and have a negative effect on our relationships with our OEMs, sponsored athletes and race teams, or otherwise have a negative effect on our business, financial condition or results of operations.

An adverse determination in any material product liability claim against us could adversely affect our operating results or financial condition.

The use of our products by consumers, often under extreme conditions, exposes us to risks associated with product liability claims. If our products are defective or used incorrectly by our customers, bodily injury, property damage or other injury, including death, may result in and could give rise to product liability claims against us, which could adversely affect our brand image or reputation. We have encountered product liability claims in the past and carry product liability insurance to help protect us against the costs of such claims, although our insurance may not be sufficient to cover all losses. Any losses that we may suffer from any product liability claims, and the effect that any product liability litigation may have upon the reputation and marketability of our products, may have a negative impact on our business, financial condition or results of operations.

Our Second Amended and Restated Credit Facility places operating restrictions on us and creates default risks. The Second Amended and Restated Credit Facility contains covenants that place restrictions on our operating activities. These covenants, among other things, limit our ability to:

- pay dividends or make distributions to our stockholders or redeem our stock;
- incur additional indebtedness or permit additional encumbrances on our assets; and
- make acquisitions or complete mergers or sales of assets, or engage in new businesses.

These restrictions may interfere with our ability to obtain financing or to engage in other business activities, which may have a material adverse effect on our business, financial condition or results of operations.

If we are unable to comply with the covenants contained in our Second Amended and Restated Credit Facility, it could constitute an event of default and our lenders could declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable. If we are unable to repay or otherwise refinance these borrowings when due, our lenders could sell the collateral securing our credit facilities, which constitutes substantially all of our assets.

We will continue to have the ability to incur debt and our levels of debt may affect our operations and our ability to pay the principal of and interest on our debt.

In the future, we and our subsidiaries may be able to incur substantial additional debt from further amendments to the Second Amended and Restated Credit Facility, additional lending sources subject to the restrictions contained in the Second Amended and Restated Credit Facility, or as a result of certain debt instruments described in our Shelf Registration Statement on Form S-3 which was filed with the SEC in March 2015.

Table of Contents

As of June 30, 2017, we had \$100.0 million in revolving credit available to borrow under the Second Amended and Restated Credit Facility. Our ability to borrow under the Second Amended and Restated Credit Facility fluctuates from time to time due to, among other factors, our borrowings under the facility.

Our indebtedness could be costly or have adverse consequences, such as:

- requiring us to dedicate a substantial portion of our cash flows from operations to payments on our debt;
- limiting our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt obligations and other general corporate requirements;
- making us more vulnerable to adverse conditions in the general economy or our industry and to fluctuations in our operating results, including affecting our ability to comply with and maintain any financial tests and ratios required under our indebtedness;
- limiting our flexibility to engage in certain transactions or to plan for, or react to, changes in our business and industry;
- putting us at a disadvantage compared to competitors that have less relative and/or less restrictive debt; and
- subjecting us to additional restrictive financial and other covenants.

If we incur substantial additional indebtedness in the future, these higher levels of indebtedness may affect our ability to pay the principal of and interest on existing indebtedness and our creditworthiness generally.

Our outstanding indebtedness under the Second Amended and Restated Credit Facility bears interest at a variable rate, which makes us more vulnerable to increases in interest rates and could cause our interest expense to increase and decrease cash available for operations and other purposes.

Borrowings under our Second Amended and Restated Credit Facility bear interest on a variable rate which increases and decreases based upon changes in the underlying interest rate and/or our leverage ratio. Any such increases in the interest rate or increases of our borrowings under the Second Amended and Restated Credit Facility will increase our interest expense.

As of June 30, 2017, we had \$64.9 million of indebtedness, bearing interest at a variable rate, outstanding under the Second Amended and Restated Credit Facility. Recent interest rates in the United States have been at historically low levels, and any increase in these rates would increase our interest expense and reduce our funds available for operations and other purposes. Although from time to time we may enter into agreements to hedge a portion of our interest rate exposure, these agreements may be costly and may not protect against all interest rate fluctuations. Accordingly, we may experience material increases in our interest expense as a result of increases in interest rate levels generally. Based on the \$64.9 million of variable interest rate indebtedness that was outstanding as of June 30, 2017, a hypothetical 100 basis point increase or decrease in the interest rate would have resulted in an approximately \$0.2 million change to our interest expense for the three months ended June 30, 2017.

Unanticipated changes in our tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our financial performance.

We are subject to income and other taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we charge in intercompany transactions for inventory, services, licenses, funding and other items. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters, and may assess additional taxes as a result. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows.

In addition, our effective tax rate in the future could be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, expiration of favorable tax holidays in foreign jurisdictions, and the discovery of new information in the course of our tax return preparation process. Since 2016, we have asserted permanent reinvestment of the earnings of certain of our foreign subsidiaries. If circumstances change such that we are unable to indefinitely reinvest our foreign earnings outside the United States or the United States taxes our indefinitely invested foreign earnings, future income tax expense and payments may differ significantly from historical amounts and could materially adversely affect our results of operations. There are proposals for tax legislation that have been introduced or that are being considered that could have a significant adverse effect on our tax rate, the carrying value of deferred tax assets, or our deferred tax liabilities. Any of these changes could affect our financial condition or performance.

Table of Contents

We are subject to certain risks in our manufacturing and in the testing of our products.

As of June 30, 2017, we employed approximately 1,700 full-time employees worldwide, a large percentage of which work at our manufacturing facilities. Our business involves complex manufacturing processes that can be inherently dangerous. Although we employ safety procedures in the design and operation of our facilities, there is a risk that an accident or death could occur in one of our facilities. Also, prior to the introduction of new products, our employees test the products under rigorous conditions, which involve the risk of injury or death. Any accident could result in manufacturing or product delays, which could negatively affect our business, financial condition or results of operations. The outcome of litigation is difficult to assess or quantify and the cost to defend litigation can be significant. As a result, the costs to defend any action or the potential liability resulting from any such accident or death or arising out of any other litigation, and any negative publicity associated therewith, could have a negative effect on our business, financial condition or results of operations.

We are subject to extensive United States federal and state, foreign and international safety, environmental, employment practices and other government regulations that may require us to incur expenses or modify product offerings in order to maintain compliance with such regulation, which could have a negative effect on our business and results of operations.

We are subject to extensive laws and regulations relating to safety, environmental, and other laws and regulations promulgated by the United States federal and state governments, as well as foreign and international regulatory authorities. Although we believe that our products, policies and processes comply with applicable safety, environmental, and other standards and related regulations, future regulations may require additional safety standards that would require additional expenses and/or modification of product offerings in order to maintain such compliance. Failure to comply with applicable regulations could result in fines, increased expenses to modify our products and harm to our reputation, all of which could have an adverse effect on our business, financial condition or results of operations.

Moreover, certain of our customer contracts require us to comply with the standards of voluntary standard-setting organizations, such as the United States Consumer Product Safety Commission, the National Highway Traffic Safety Administration, and the European Committee for Standardization (CEN). Failure to comply with the voluntary requirements of such organizations could result in the loss of certain customer contracts, which could have an adverse effect on our business, financial condition or results of operations.

We are subject to employment practice laws and regulations and as such are exposed to litigation risks.

We are subject to extensive laws and regulations relating employment practices, including wage and hour, wrongful termination and discrimination. Complying with such laws and regulations, and defending against allegations of our failure to comply (including meritless allegations), can be expensive and time consuming. We believe that our policies and processes comply with applicable employment standards and related regulations, however, we are subject to risks of litigation by employees and others which might involve allegations of illegal, unfair or inconsistent employment practices, including wage and hour violations and employment discrimination, misclassification of independent contractors as employees, wrongful termination and other concerns, which could require additional expenditures.

We are subject to environmental laws and regulation and potential exposure for environmental costs and liabilities. Our operations, facilities and properties are subject to a variety of foreign, federal, state and local laws and regulations relating to health, safety and the protection of the environment. These environmental laws and regulations include those relating to the use, generation, storage, handling, transportation, treatment and disposal of solid and hazardous materials and wastes, emissions to air, discharges to waters and the investigation and remediation of contamination. Many of these laws impose strict, retroactive, joint and several liability upon owners and operators of properties, including with respect to environmental matters that occurred prior to the time the party became an owner or operator. In addition, we may have liability with respect to third party sites to which we send waste for disposal. Failure to comply with such laws and regulations can result in significant fines, penalties, costs, liabilities or restrictions on operations that could negatively affect our business, financial condition or results of operations. From time to time, we have been involved in administrative or legal proceedings relating to environmental, health or safety matters and have incurred expenditures relating to such matters in the past.

We believe that our operations are in substantial compliance with applicable environmental laws and regulations. However, additional environmental issues relating to presently known or unknown matters could give rise to currently unanticipated investigation, assessment or expenditures. Compliance with more stringent laws or regulations, as well as different interpretations of existing laws, more vigorous enforcement by regulators or unanticipated events, could require additional expenditures that may materially affect our business, financial condition or results of operations.

Table of Contents

Federal, state, local, foreign and international laws and regulations relating to land-use, and noise and air pollution may have a negative impact on our future sales and results of operations.

The products in our powered vehicles line are used in vehicles which are subject to numerous federal, state, local, foreign and international laws and regulations relating to noise and air-pollution. Powered vehicles, and even bikes, have become subject to laws and regulations prohibiting their use on certain lands and trails. For example, in San Mateo County, California, mountain bikes are not allowed on county trails, and ATV and Side-by-Side riding is not allowed in Zion National Park, among many other national and state parks. In addition, recreational snowmobiling has been restricted in some national parks and federal lands in Canada, the United States and other countries. If more of these laws and regulations are passed and the users of our products lose convenient locations to ride their mountain bikes and powered vehicles, our sales could decrease and our business, financial condition or results of operations could suffer.

Fuel shortages, or high prices for fuel, could have a negative effect on the use of powered vehicles that use our products.

Gasoline or diesel fuel is required for the operation of the powered vehicles that use our products. There can be no assurance that the supply of these fuels will continue uninterrupted, that rationing will not be imposed or that the price of or tax on these petroleum products will not significantly increase in the future. Future shortages of gasoline and diesel fuel and substantial increases in the price of fuel could have a material adverse effect on our powered vehicle product category, which could have a negative effect on our business, financial condition or results of operations.

We do not control our suppliers or OEMs, or require them to comply with a formal code of conduct, and actions that they might take could harm our reputation and sales.

We do not control our suppliers or OEMs or their labor, environmental or other practices. A violation of labor, environmental, intellectual property or other laws by our suppliers or OEMs, or a failure of these parties to follow generally accepted ethical business practices, could create negative publicity and harm our reputation. In addition, we may be required to seek alternative suppliers or OEMs if these violations or failures were to occur. We do not inspect or audit compliance of our suppliers or OEMs with these laws or practices, and we do not require our suppliers or OEMs or licensees to comply with a formal code of conduct. Any conduct or actions that our suppliers could take could reduce demand for our products, harm our ability to meet demand or harm our reputation, brand image, business, financial condition or results of operations.

We depend on a limited number of suppliers for our materials and component parts for some of our products, and the loss of any of these suppliers or an increase in cost of raw materials could harm our business.

We depend on a limited number of suppliers for certain components. If our current suppliers, in particular the minority of those which are "single-source" suppliers, are unable to timely fulfill orders, or if we are required to transition to other suppliers, we could experience significant production delays or disruption to our business. We define a single-source supplier as a supplier from which we purchase all of a particular raw material or input used in our manufacturing operations, although other suppliers are available from which to purchase the same raw material or input or an equivalent substitute. We do not maintain long term supply contracts with any of our suppliers and instead purchase these components on a purchase order basis. As a result, we cannot force any supplier to sell us the necessary components we use in creating our products and we could face significant supply disruptions should they refuse to do so. As the majority of our bike component manufacturing occurs in Taiwan, we could experience difficulties locating qualified suppliers geographically located closer to these facilities. Furthermore, such suppliers could experience difficulties in providing us with some or all of the materials we require, which could result in disruptions in our manufacturing operations. If we experience difficulties with our suppliers or manufacturing delays caused by our suppliers, whether in connection with our manufacturing operations in the United States or in Taiwan, our business, financial condition or results of operations could be materially and adversely impacted.

In addition, we purchase various raw materials in order to manufacture our products. The main commodity items purchased for production include aluminum, magnesium, steel and carbon. Historically, price fluctuations for these components and raw materials have not had a material impact on our business. In the future, however, if we experience material increases in the price of components or raw materials and are unable to pass on those increases to our customers, or there are shortages in the availability of such component parts or raw materials, it could negatively

affect our business, financial condition or results of operations.

In addition to our various single-source suppliers, we also rely on one "sole-source" supplier, Miyaki Corporation, or Miyaki. We define a sole-source supplier as a supplier of a raw material or input for which there is no other supplier of the same product or an equivalent substitute. Miyaki is the exclusive producer of the Kashima coating for our suspension component tubes. As part of our agreement with Miyaki, we have been granted the exclusive right to use the trademark "KASHIMACOAT" on products comprising the aluminum finished parts for suspension components (e.g., tubes) and on related sales and marketing material worldwide, subject to certain exclusions. Although we believe we could obtain other coatings of comparable utility from other sources if necessary, we could no longer obtain this specific Kashima coating or use the trademark "KASHIMACOAT" if Miyaki were to stop supplying us with this coating. The need to replace the Kashima coating could temporarily disrupt our business and harm our business, financial condition or results of operations.

Table of Contents

Regulations related to conflict minerals may force us to continue to incur additional expenses and otherwise adversely impact our business.

The SEC rules regarding disclosure of the use of tin, tantalum, tungsten and gold, known as conflict minerals, in products manufactured by public companies require ongoing due diligence to determine whether such minerals originated from the Democratic Republic of Congo ("DRC"), or an adjoining country and whether such minerals helped finance the armed conflict in the DRC. As a public company, we are required to comply with the reporting obligations annually. There are costs associated with complying with these disclosure requirements, including costs to determine the origin of conflict minerals in our products. The effect of such rules on customer, supplier and/or consumer behavior could adversely affect the sourcing, supply and pricing of materials used in our products. As a result, we may also incur costs with respect to potential changes to products, processes or sources of supply. We may face disqualification as a supplier for customers and reputational challenges if our due diligence procedures do not enable us to verify the origins for all conflict minerals used in our products or to determine if such conflict minerals are conflict-free. Accordingly, these rules could have a material adverse effect on our business, results of operations or financial condition.

The transition of a majority of the manufacturing of our bike suspension component products to our facility in Taiwan may negatively impact our brand image and consumer loyalty, which in turn could have a material adverse impact on our business and results of operations.

During 2015, we transitioned the majority of the manufacturing of our bike suspension component products to our facility in Taiwan. No assurances can be given that consumers will not be adversely influenced by the fact that such products will no longer be manufactured in the United States or that consumers and OEM customers may not otherwise perceive that the quality of our products is lowered as a result of the fact that the majority are manufactured overseas. Such perceptions could adversely impact our business, financial condition or results of operations.

We may incur higher employee costs in the future.

We are subject to government mandated wage and benefit laws and regulations in many varying countries and jurisdictions. For example, the State of California, where a substantial number of our employees are located, has passed regulations increasing minimum wage rates from \$9.00 per hour to \$10.00 per hour, effective January 1, 2016. Additionally, on March 31, 2016, the California Legislature passed legislation which was designed to raise the statewide minimum wage gradually until it reaches \$15.00 per hour in 2022 and it was signed into law on April 4, 2016. Under the new California law, the minimum wage increased to \$10.50 per hour effective January 1, 2017, and then will gradually increase each calendar year through 2022 when it will reach \$15.00 per hour. As we expand internationally, we are also subject to applicable laws in each such jurisdiction. Increases in the mandated wage in any or all of the jurisdictions in which we operate could subject us to increased costs, thereby impacting our business, financial condition, or results of operations.

We maintain a self-insured healthcare plan for our employees based in the United States. We have insurance coverage in place for individual claims above a specified amount in any year. Inflation in healthcare costs, as well as additional costs we may incur as a result of current or future federal or state healthcare legislation and regulations, could significantly increase our employee healthcare costs in the future. Continued increases in our employee costs could adversely affect our earnings, financial condition and liquidity.

We rely on increasingly complex information systems for management of our manufacturing, distribution, sales and other functions. If our information systems fail to perform these functions adequately or if we experience an interruption in our operations, our business could suffer.

All of our major operations, including manufacturing, distribution, sales and accounting, are dependent upon our complex information systems. Our information systems are vulnerable to damage or interruption from, among other things:

- earthquake, fire, flood, hurricane and other natural disasters;
- power loss, computer systems failure, internet and telecommunications or data network failure; and
- hackers, computer viruses, software bugs or glitches.

Any damage or significant disruption in the operation of such systems or the failure of our information systems to perform as expected could disrupt our operations, reduce our efficiency, delay our fulfillment of customer orders or

require significant unanticipated expenditures to correct, and thereby have a negative effect on our business, financial condition or results of operations.

41

Table of Contents

In May 2015, we began the process of implementing a global enterprise resource planning system (ERP). The pilot phase of the new ERP was completed in fiscal year 2016. Remaining operations will be phased in over the next few fiscal years. ERP implementations are complex and time consuming projects that involve substantial expenditures on system software and implementation activities. ERP implementations also require transformation of business and financial processes in order to reap the benefits of the ERP system. Any such transformation involves risks inherent in the conversion to a new computer system, including loss of information and potential disruption to our normal operations. Our business and results of operations may be adversely affected if we experience operating problems or cost overruns during the ERP implementation process, or if the ERP system and the associated process changes do not give rise to the benefits that we expect.

Additionally, if we do not effectively implement the ERP system as planned or the system does not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected.

We could be negatively impacted by cybersecurity attacks.

We use a variety of information technology systems in the ordinary course of business, which are potentially vulnerable to unauthorized access, computer viruses and cyber-attacks, including cyber-attacks to our information technology infrastructure and attempts by others to gain access to our propriety or sensitive information, and ranging from individual attempts to advanced persistent threats. The procedures and controls we use to monitor these threats and mitigate our exposure may not be sufficient to prevent cybersecurity incidents. The results of these incidents could include misstated financial data, theft of trade secrets or other intellectual property, liability for disclosure of confidential customer, supplier or employee information, increased costs arising from the implementation of additional security protective measures, litigation and reputational damage, which could materially adversely affect our financial condition, business or results of operations. Any remedial costs or other liabilities related to cybersecurity incidents may not be fully insured or indemnified by other means.

Our operations may be impaired if our information technology systems fail to perform adequately or if they are the subject of a data breach or cyber attack.

Information technology systems are critically important to operating our business. We rely on information technology systems to manage business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of any of the information technology systems to perform as anticipated could disrupt our business and could result in transaction errors, processing inefficiencies and the loss of sales and customers, which could materially adversely affect our business, financial condition, or results of operations.

We have grown and may continue to grow in the future through acquisitions. Growth by acquisitions involves risks and we may not be able to effectively integrate businesses we acquire or we may not be able to identify or consummate any future acquisitions on favorable terms, or at all.

We intend to selectively evaluate additional acquisitions in the future. Any acquisitions that we might make are subject to various risks and uncertainties and could have a negative impact on our business, financial condition or results of operations. These risks include the inability to integrate effectively the operations, products, technologies and personnel of the acquired companies (some of which may be spread out in different geographic regions), the inability to achieve anticipated cost savings or operating synergies, the earn-outs we may contractually obligate ourselves to pay, and the risk we may not be able to effectively manage our operations at an increased scale of operations resulting from such acquisitions. In the event we do complete acquisitions in the future, such acquisitions could affect our cash flows and net income as we expend funds, increase indebtedness and incur additional expenses in connection with pursuing acquisitions. We may also issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments. We may not be able to identify or consummate any future acquisitions on favorable terms, or at all.

Our operating results are subject to quarterly variations in our sales, which could make our operating results difficult to predict and could adversely affect the price of our common stock.

We have experienced, and expect to continue to experience, substantial quarterly variations in our sales and net income. Our quarterly results of operations fluctuate, in some cases significantly, as a result of a variety of other factors, including, among other things:

- the timing of new product releases or other significant announcements by us or our competitors;

- new advertising initiatives;
- fluctuations in raw materials and component costs; and
- changes in our practices with respect to building inventory.

42

Table of Contents

As a result of these quarterly fluctuations, comparisons of our operating results between different quarters within a single year are not necessarily meaningful and may not be accurate indicators of our future performance. Any future quarterly fluctuations that we report may differ from the expectations of market analysts and investors, which could cause the price of our common stock to fluctuate significantly. We also believe that the seasonal nature of our business may have been overshadowed throughout the past few years due to the rapid growth in sales we have experienced during those periods.

Our beliefs regarding the future growth of the performance suspension and ride dynamics product market are supported by qualitative data and limited sources and may not be reliable. A reduction or lack of continued growth in the popularity of high-end bikes, bikes or powered vehicles or in the number of consumers who are willing to pay premium prices for well-designed performance-oriented equipment in the markets in which we sell our products could adversely affect our product sales and profits, financial condition or results of operations.

We generate virtually all of our revenues from sales of performance suspension and ride dynamics products. Our beliefs regarding the outlook of the performance suspension product market come from qualitative data and limited sources, which may not be reliable. If our beliefs regarding the opportunities in the market for our products are incorrect or the number of consumers who we believe are willing to pay premium prices for well-designed performance-oriented equipment in the markets in which we sell our products does not increase, or declines, we may fail to achieve future growth and our business, financial condition or results of operations could be negatively affected.

The obligations associated with being a public company require significant resources and management attention. Section 404 of the Sarbanes Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting and generally requires a report by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. Under the JOBS Act, our independent registered public accounting firm has not been required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes Oxley Act because we are an "emerging growth company," however we expect to become a large accelerated filer effective for 2017 fiscal year end and as such will no longer be afforded exemption from the attestation requirement.

The rules governing the standards that have been met by our management to assess our internal control over financial reporting are complex and require significant documentation, testing and possible remediation. We may encounter problems or delays in completing the implementation of any improvements necessitated by acquisitions, system implementations, or growth in the volume or nature of our business activities. Additionally, we may encounter difficulties in receiving an unqualified opinion on the effectiveness of the internal controls over financial reporting in connection with the attestation provided by our independent registered public accounting firm. If we cannot favorably assess the effectiveness of our internal control over financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal controls, investors could lose confidence in our financial information and the price of our common stock could decline.

As we transition from our status as "an emerging growth company," we may need to upgrade our systems or create new systems, implement additional financial and management controls, reporting systems and procedures, create or outsource an internal audit function, and hire additional accounting and finance staff, which will increase our administrative costs. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with the financial reporting requirements and other rules that apply to reporting companies could be impaired. Any failure to maintain effective internal control over financial reporting could have a material adverse effect on our business, prospects, liquidity, financial condition or results of operations.

Failure of our internal control over financial reporting could adversely affect our business and financial results. Our management is responsible for establishing and maintaining effective internal control over financial reporting under Section 404 of the Sarbanes Oxley Act. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results

accurately and timely or to detect and prevent fraud. The identification of a material weakness could indicate a lack of controls adequate to generate accurate financial statements that, in turn, could cause a loss of investor confidence and decline in the market price of our common stock. We cannot assure you that we will be able to timely remediate any material weaknesses that may be identified in future periods or maintain all of the controls necessary for continued compliance. Likewise, we cannot assure you that we will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

Table of Contents

Risks related to ownership of our common stock

The trading price of our common stock may be volatile, and you might not be able to sell your shares at or above the price you pay for the shares.

The trading price of our common stock could be volatile, and you could lose all or part of your investment in our common stock. Since our IPO in 2013, our stock price has fluctuated between \$37.60 and \$13.35 per share and such volatility may continue in the future. Factors affecting the trading price of our common stock could include:

- variations in our operating results or those of our competitors;
- new product or other significant announcements by us or our competitors;
- changes in our product mix;
- changes in consumer preferences;
- fluctuations in currency exchange rates;
- the gain or loss of significant customers;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- changes in general economic conditions as well as conditions affecting our industry in particular; and
- sales of our common stock by us, our significant stockholders or our directors or executive officers.

In addition, in recent years, the stock market has experienced significant price fluctuations. Fluctuations in the stock market generally or with respect to companies in our industry could cause the trading price of our common stock to fluctuate for reasons unrelated to our business, operating results or financial condition. Further, some companies that have had volatile market prices for their securities have had securities class actions filed against them. A lawsuit filed against us, regardless of its merits or outcome, could cause us to incur substantial costs and could divert management's attention.

Future issuances and sales of our shares, or the perception that such sales may occur, could cause our stock price to decline.

The issuance of additional shares of our common stock could dilute the ownership interest of our common stockholders and could depress the market price of shares of our common stock.

Our Amended and Restated Certificate of Incorporation authorizes us to issue 90,000,000 shares of common stock, 37,429,110 of which shares were outstanding as of June 30, 2017. In the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisitions or otherwise. In March 2015 we filed a Shelf Registration Statement on Form S-3 with the SEC to enable us, and certain of our stockholders, to quickly go to market should we, or certain of our stockholders, wish to sell our common stock, or additionally, in our case, certain other debt instruments.

After our IPO, we filed a registration statement under the Securities Act to register shares of our common stock that we may issue under our equity plans. As a result, all such shares can be freely sold in the public market upon issuance, subject to any vesting or contractual lock-up agreements.

We also have a number of institutional stockholders that own significant blocks of our common stock. If one or more of these stockholders were to sell large portions of their holdings in a relatively short time, for liquidity or other reasons, the prevailing price of shares of our common stock could be negatively affected.

Through 2017, we are an "emerging growth company," and the reduced disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act. For as long as we are an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding advisory "say-on-pay" and "say-when-on-pay" votes on executive compensation and shareholder advisory votes on golden parachute compensation. We expect to become a large accelerated filer effective for reports filed in 2018, including our 2017 annual report on Form 10-K, and as such, we will no longer be permitted

to provide reduced disclosure.

44

Table of Contents

We cannot determine whether investors have found our common stock less attractive to the extent we have relied on these exemptions or whether increased disclosure in 2018 will improve the attractiveness of and expand the active market for our common stock.

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

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes unfavorable research about our business or our industry, our stock price would likely decline. If one or more of these analysts ceases coverage of our Company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our Company.

Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, (together, our "Charter Documents"), as well as Delaware law, contain provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Among other things, these provisions:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to discourage a takeover attempt;
- establish a classified Board of Directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- require that directors be removed from office only for cause;
- provide that vacancies on our board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office;
- provide that no action be taken by stockholders by written consent;
- provide that special meetings of our stockholders may be called only by our Board of Directors, our Chairperson of the Board of Directors, our Lead Director (if we do not have a Chairperson or the Chairperson is disabled), our Chief Executive Officer or our President (in the absence of a Chief Executive Officer);
- require supermajority stockholder voting for our stockholders to effect certain amendments to our Charter Documents; and
- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing other matters that can be acted upon by stockholders at stockholder meetings.

In addition, we are subject to Section 203 of the General Corporation Law of the State of Delaware, ("DGCL"), which generally prohibits a Delaware corporation from engaging in any broad range of business combinations with a stockholder owning 15% or more of such corporation's outstanding voting stock for a period of three years following the date on which such stockholder became an "interested" stockholder. In order for us to consummate a business combination with an interested stockholder within three years of the date on which the stockholder became interested, either (i) the business combination or the transaction that resulted in the stockholder becoming interested must be approved by our board of directors prior to the date the stockholder became interested, (ii) the interested stockholder must own at least 85% of our outstanding voting stock at the time the transaction commences (excluding voting stock owned by directors who are also officers and certain employee stock plans) or (iii) the business combination must be approved by our board of directors and authorized by at least two-thirds of our stockholders (excluding the interested stockholder) at a special or annual meeting (not by written consent). This provision could have the effect of delaying or preventing a change in control, whether or not it is desired by or beneficial to our stockholders. Any delay or prevention of a change in control transaction or changes in our board of directors and management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then-current market price for their shares of our common stock.

Table of Contents

Our Amended and Restated Certificate of Incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our Amended and Restated Certificate of Incorporation provides that, with certain limited exceptions, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of fiduciary duty owed by any director, officer or other employee of our Company owed to us or our stockholders; (iii) any action asserting a claim against us arising pursuant to any provision of the DGCL or our Charter Documents; (iv) any action to interpret, apply, enforce or determine the validity of our Charter Documents; or (v) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have received notice of and consented to the foregoing provisions. 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 our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find this choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table contains the details related to the repurchase of common stock based on the date of trade during the quarter ended June 30, 2017:

Period	Total Number of Shares Purchased (1)	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs (2)
4/1 - 5/5	30,683	\$ 29.65	—	\$32,052,500
5/6 - 6/2	16,462	\$ 32.30	—	\$32,052,500
6/3 - 6/30	30,196	\$ 35.60	—	\$32,052,500
Total	77,341	\$ 32.54	—	\$32,052,500

(1) Includes shares acquired from holders of restricted stock unit awards to satisfy tax withholding obligations.

(2) On February 25, 2016, the Company's Board of Directors authorized a stock repurchase program for up to \$40 million of the Company's common shares outstanding. The repurchase program expires on December 31, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference		Filed Herewith
		FormFile No.	Filing Date	
3.1	Amended and Restated Certificate of Incorporation	10-Q 001-36040	September 19, 2013	
3.2	Amended and Restated Bylaws	10-Q 001-36040	September 19, 2013	
10.1	Fox Factory Holding Corp. 2013 Omnibus Incentive Plan (as amended by the First Amendment, approved by stockholders on May 4, 2017)	8-K 001-36040	May 8, 2017	
10.2	Second Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement, dated June 12, 2017			X
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended			X
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended			X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended			X
101.INS	XBRL Instance Document			X
101.SCH	XBRL Taxonomy Extension Schema			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase			X
101.LAB	XBRL Taxonomy Extension Label Linkbase			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase			X

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In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications
*furnished in Exhibit 32.1 hereto are deemed to accompany this Form 10-Q and will not be deemed “filed” for purposes
of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any
filing under the Securities Act or the Exchange Act.

