

FOX FACTORY HOLDING CORP  
Form 10-Q  
November 05, 2014  
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 September 30, 2014

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  
(State or Other Jurisdiction of  
Incorporation or Organization)

26-1647258  
(I.R.S. Employer  
Identification No.)

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

95066  
(Zip 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

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 October 31, 2014, there were 37,057,804 shares of the Registrant's common stock outstanding.



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

	Page
<u><b>PART I. FINANCIAL INFORMATION</b></u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	1
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4. Controls and Procedures</u>	27
 <u><b>PART II. OTHER INFORMATION</b></u>	
<u>Item 1. Legal Proceedings</u>	28
<u>Item 1A. Risk Factors</u>	28
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
<u>Item 3. Defaults Upon Senior Securities</u>	42
<u>Item 4. Mine Safety Disclosures</u>	42
<u>Item 5. Other Information</u>	42
<u>Item 6. Exhibits</u>	42
<u>Signatures</u>	43
<u>Index to Exhibits</u>	44

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## FOX FACTORY HOLDING CORP.

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	As of September 30, 2014 (unaudited)	As of December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$1,937	\$1,683
Accounts receivable (net of allowance for doubtful accounts of \$383 and \$366 at September 30, 2014 and December 31, 2013 respectively)	40,610	33,781
Inventory	54,946	42,783
Prepays and other current assets	4,753	2,648
Deferred tax assets	4,512	3,490
Total current assets	106,758	84,385
Property, plant and equipment, net	19,166	13,418
Loan fees, net	860	717
Goodwill	44,007	31,925
Intangibles, net	57,800	27,284
Other assets	702	—
Total assets	\$229,293	\$157,729
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$24,826	\$24,254
Accrued expenses	11,962	12,451
Liability reserve for uncertain tax positions	7,582	7,796
Current portion of long-term debt	2,500	—
Current portion of contingent consideration	7,212	—
Total current liabilities	54,082	44,501
Line of credit	—	8,000
Long-term debt, less current portion	28,250	—
Deferred rent	752	931
Deferred tax liabilities	9,705	12,005
Contingent consideration, less current portion	11,686	—
Total liabilities	104,475	65,437
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, \$0.001 par value—10,000,000 authorized and no shares issued or outstanding as of September 30, 2014 and December 31, 2013	—	—
Common stock, \$0.001 par value—90,000,000 authorized and 36,984,129 and 36,317,087 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively;	37	36
Additional paid-in capital	95,629	87,788
Accumulated other comprehensive loss	(144	) (15
Retained earnings	29,296	4,483
Total stockholders' equity	124,818	92,292

Edgar Filing: FOX FACTORY HOLDING CORP - Form 10-Q

Total liabilities and stockholders' equity	\$229,293	\$157,729
--	-----------	-----------

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

1

---

Table of Contents

## FOX FACTORY HOLDING CORP.

## Condensed Consolidated Statements of Income

(in thousands, except per share data)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Sales	\$90,148	\$82,293	\$232,630	\$207,487
Cost of sales	61,601	56,960	160,113	146,074
Gross profit	28,547	25,333	72,517	61,413
Operating expenses:				
Sales and marketing	5,282	3,621	14,244	10,382
Research and development	3,468	2,500	10,228	7,442
General and administrative	4,202	3,098	12,932	8,588
Amortization of purchased intangibles	1,684	1,341	4,719	4,023
Total operating expenses	14,636	10,560	42,123	30,435
Income from operations	13,911	14,773	30,394	30,978
Other expense, net:				
Interest expense	291	2,015	722	3,968
Other expense (income), net	1	(38)	(156)	(19)
Other expense, net	292	1,977	566	3,949
Income before income taxes	13,619	12,796	29,828	27,029
Provision for income taxes	3,328	2,872	5,015	7,834
Net income	\$10,291	\$9,924	\$24,813	\$19,195
Earnings per share:				
Basic	\$0.28	\$0.28	\$0.68	\$0.56
Diluted	\$0.27	\$0.27	\$0.66	\$0.55
Weighted average shares used to compute earnings per share:				
Basic	36,904	35,013	36,658	33,983
Diluted	37,853	36,423	37,773	35,108

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 September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$10,291	\$9,924	\$24,813	\$19,195
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(138 )	(10 )	(129 )	11
Other comprehensive (loss) income	(138 )	(10 )	(129 )	11
Comprehensive income	\$10,153	\$9,914	\$24,684	\$19,206

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 nine months ended September 30,	
	2014	2013
<b>OPERATING ACTIVITIES:</b>		
Net income	\$24,813	\$19,195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,073	5,757
Provision for doubtful accounts	17	(88 )
Stock-based compensation	2,965	1,675
Excess tax benefit from exercise of stock options	(3,046 )	—
Loss (gain) on disposal of property and equipment	2	(7 )
Deferred taxes	(3,322 )	(1,210 )
Amortization of loan fees	134	—
Write-off of unamortized loan origination costs from related party debt	—	1,405
Change in fair value of contingent consideration	(137 )	—
Changes in operating assets and liabilities:		
Accounts receivable	(5,305 )	(13,934 )
Inventory	(3,858 )	(12,138 )
Income taxes payable	2,832	28
Prepays and other current assets	(1,983 )	(264 )
Other assets	(702 )	284
Accounts payable	330	2,605
Accrued expenses	(906 )	1,896
Deferred rent	(180 )	(122 )
Net cash provided by operating activities	18,727	5,082
<b>INVESTING ACTIVITIES:</b>		
Acquisition - Sport Truck USA, Inc.	(40,770 )	—
Purchases of property and equipment	(3,717 )	(2,485 )
Acquisition of other assets	(1,401 )	—
Proceeds from sale of property and equipment	106	7
Net cash used in investing activities	(45,782 )	(2,478 )
<b>FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	15,000	27,721
Payments on line of credit	(23,000 )	(4,000 )
Proceeds from related party line of credit	—	31,858
Payments on related party line of credit	—	(32,608 )
Proceeds from issuance of debt, net of origination fees of \$277	49,723	—
Repayment of debt	(19,250 )	—
Repayment of related party debt	—	(58,500 )
Proceeds from initial public offering, net of underwriter fees	—	39,857
Payments for deferred offering costs of initial public offering	—	(3,462 )
Proceeds from the exercise of stock options, net of shares repurchased for tax withholding	1,830	—
Excess tax benefit from exercise of stock options	3,046	—





Table of Contents

Net cash provided by financing activities	27,349	866
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(40	) 11
CHANGE IN CASH AND CASH EQUIVALENTS	254	3,481
CASH AND CASH EQUIVALENTS—Beginning of period	1,683	15
CASH AND CASH EQUIVALENTS—End of period	\$1,937	\$3,496
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$6,791	\$7,027
Interest	\$586	\$2,446
Non-cash investing and financing activities:		
Contingent consideration - acquisition of Sport Truck USA, Inc.	\$19,035	\$—
Deferred offering costs recorded in accounts payable	\$—	\$273
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 high-performance suspension products primarily for mountain bikes, side-by-side vehicles, on-road and off-road vehicles and trucks, all-terrain vehicles, snowmobiles, specialty vehicles and applications, and motorcycles. The Company acts both as a tier one supplier to leading action sports original equipment manufacturers ("OEM") and provides aftermarket products to retailers and distributors ("AM").

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 in the United States of America ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. 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 31, 2013 included in the Company's Annual Report on Form 10-K as filed with the SEC. In management's opinion, the unaudited interim 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 the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

**Initial Public Offering**- On August 13, 2013, the Company completed the initial public offering ("IPO") of its common stock pursuant to a registration statement on Form S-1. In the IPO, the Company sold 2,857 shares of common stock and the selling stockholders sold a total of 7,000 shares of common stock (including the shares sold pursuant to the exercise of the option granted to the underwriters) at an initial public offering price to the public of \$15.00 per share. The Company received net proceeds from the IPO of approximately \$36,122 from its sale of 2,857 shares of common stock after deducting underwriting discounts, commissions and offering expenses. The Company did not receive any proceeds from the sale of shares by the selling stockholders. The Company used the net proceeds it received to pay down related party debt. In July 2014, certain selling stockholders completed a secondary offering of the Company's common stock, which is described more fully in Note 8 - Stockholders' Equity.

**Principles of Consolidation**- These condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's subsidiaries include: Fox Factory, Inc., ST USA Holding Corp. and Fox Factory GmbH. All intercompany accounts and transactions 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 31, 2013 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.

In the second quarter of 2014, the Company concluded an analysis of legal developments and business practices relative to the apportionment of income for state tax purposes that resulted in a change in estimate regarding income taxes. See Note 10 - Income Taxes.

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

**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.

**Recent Accounting Pronouncements-** In May 2014, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board issued their converged standard on revenue recognition, Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers". 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 revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, as it is considered in current guidance. We will apply the new guidance to determine whether revenue should be recognized over time or at a point in time. This standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016, with no early adoption permitted, and 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.

**Reclassifications-** We have reclassified certain prior period amounts within our condensed consolidated statement of cash flows for the nine months ended September 30, 2013 to conform to our current year presentation.

**2. Inventory**

Inventory consisted of the following:

	As of September 30, 2014	As of December 31, 2013
Raw materials	\$38,594	\$30,299
Work-in-process	1,992	1,155
Finished goods	14,360	11,329
Total inventory	\$54,946	\$42,783

**3. Property, Plant and Equipment, net**

Property, plant and equipment consisted of the following:

	As of September 30, 2014	As of December 31, 2013
Machinery and manufacturing equipment	\$16,646	\$13,744
Office equipment and furniture	5,097	4,243
Transportation equipment	1,963	1,495
Building and land	3,469	—
Leasehold improvements	5,846	5,525
Total	33,021	25,007
Less: accumulated depreciation and amortization	(13,855)	(11,589)
Property, plant and equipment, net	\$19,166	\$13,418

The depreciation expense was \$2,354 and \$2,380 for the nine months ended September 30, 2014 and twelve months ended December 31, 2013, respectively.

7

---

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

## 4. Intangibles, net

Intangible assets, excluding goodwill, are comprised of the following:

	Gross carrying amount	Accumulated amortization	Net carrying amount	Weighted average life (years)
September 30, 2014:				
Customer relationships OEM	\$7,400	\$(4,163)	) \$3,237	11
Customer relationships AM	23,774	(4,337)	) 19,437	13
Core technology	32,500	(27,422)	) 5,078	7
Patents	835	(357)	) 478	5
Total	64,509	(36,279)	) 28,230	
Trademarks and brands, not subject to amortization			29,570	
Total			\$57,800	
December 31, 2013:				
Customer relationships OEM	\$7,400	\$(3,700)	) \$3,700	11
Customer relationships AM	4,809	(3,239)	) 1,570	7
Core technology	32,500	(24,375)	) 8,125	7
Patents	835	(246)	) 589	5
Total	45,544	(31,560)	) 13,984	
Trademarks and brands, not subject to amortization			13,300	
Total			\$27,284	
		For the three months ended September 30,	For the nine months ended September 30,	
		2014	2014	2013
Amortization of intangibles		\$1,684	\$4,719	\$4,023

The Company acquired intangible assets in conjunction with the Sport Truck, USA Inc. ("Sport Truck") acquisition in March 2014, as more fully described in Note 13 - Acquisition. The acquired definite lived assets will be amortized on a straight-line basis.

Goodwill activity consisted of the following:

Balance as of December 31, 2013	\$31,925
Acquisition of Sport Truck	11,962
Currency translation and other adjustments	120
Balance as of September 30, 2014	\$44,007

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

Future amortization expense for finite-lived intangibles as of September 30, 2014 is as follows:

	Amortization Expense
For the years ending December 31,	
2014 (remaining three months)	\$1,676
2015	6,709
2016	2,097
2017	2,035
2018	2,035
Thereafter	13,678
Total expected future amortization	\$28,230

## 5. Accrued Expenses

Accrued expenses consisted of the following:

	As of September 30, 2014	As of December 31, 2013
Payroll and related expenses	\$5,956	\$6,007
Warranty	4,373	3,857
Income tax payable	1,116	2,469
Other accrued expenses	517	118
Total	\$11,962	\$12,451

Activity related to warranties is as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Beginning warranty liability	\$3,880	\$3,995	\$3,857	\$4,582
Charge to cost of sales	1,160	1,432	2,877	3,119
Fair value of warranty assumed in acquisition	—	—	192	—
Costs incurred	(667	) (1,255	) (2,553	) (3,529
Ending warranty liability	\$4,373	\$4,172	\$4,373	\$4,172

## 6. Debt

## 2013 Credit Facility Amended and Restated

In August 2013, the Company entered into a credit facility with Sun Trust Bank and other named lenders (the "2013 Credit Facility"). The 2013 Credit Facility provided a revolving line of credit. On March 31, 2014, in connection with its asset purchase of Sport Truck, the Company amended and restated the 2013 Credit Facility (the "Amended and Restated 2013 Credit Facility"). The Amended and Restated 2013 Credit Facility provides a maturing secured term loan in the principal amount of \$50,000, subject to quarterly principal payments, and extends 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 of \$5,000.



Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

The Amended and Restated 2013 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 September 30, 2014 the one month LIBOR and prime rates were 0.16% and 3.25%, respectively. The Amended and Restated 2013 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 September 30, 2014.

The following table summarizes the line of credit under the Amended and Restated 2013 Credit Facility:

	As of September 30, 2014
Amount outstanding	\$—
Available borrowing capacity	\$60,000
Maximum borrowing capacity	\$60,000

As of September 30, 2014, future principal payments for long-term debt, including the current portion, are summarized as follows:

Fiscal Year	
2014 (remaining three months)	\$625
2015	2,500
2016	3,438
2017	3,750
2018	4,687
Thereafter	15,750
Total	30,750
Less: current portion	2,500
Long-term debt less current portion	\$28,250

## 7. 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.

**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.



Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

Other Commitments—In connection with our acquisition of Sport Truck, we have agreed to pay up to \$29,295 in additional consideration through 2017, contingent upon the achievement of certain financial performance goals through 2016. See Note 13 - Acquisition and Note 9 - Fair Value Measurements. No other material contractual obligation has changed since the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on March 11, 2014.

## 8. Stockholders' Equity

## Secondary Offering

In July 2014, selling stockholders, including Compass Group Diversified Holdings LLC ("Compass"), sold 5,750 shares of our common stock at a price of \$15.50 per share, less underwriting discounts and commissions, in a secondary public offering. The total shares sold include 750 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. The Company incurred approximately \$55 and \$455 of expenses in connection with the offering during the three and nine months ended September 30, 2014, respectively.

## Equity Incentive Plans

During the nine months ended September 30, 2014, 581 shares of common stock were issued due to the exercise of stock options, resulting in proceeds to the Company of approximately \$2,493. There were no stock options granted during the nine months ended September 30, 2014. There were 58 stock options forfeited during the nine months ended September 30, 2014.

The following table summarizes the activity for the Company's unvested restricted stock units ("RSU") for the nine months ended September 30, 2014:

	Unvested RSUs	
	Number of shares outstanding	Weighted-average grant date fair value
Unvested at December 31, 2013	516	\$ 17.53
Granted	777	17.30
Canceled	(386	) 17.52
Vested	(130	) 17.53
Unvested at September 30, 2014	777	\$ 17.31

The fair value of the RSUs granted is determined using the fair value of the Company's common stock on the date of grant. Stock-based compensation expense is amortized on a straight-line basis over the requisite service period. As of September 30, 2014, the Company had approximately \$11,948 of unrecognized stock-based compensation expense related to RSUs, which will be recognized over the remaining weighted-average vesting period of approximately 3.16 years. Additionally, as of September 30, 2014, the Company had approximately \$785 of unrecognized stock-based compensation expense related to stock options, which will be recognized over the remaining weighted-average vesting period of approximately 2.49 years.

On September 2, 2014, the Company and certain of its officers agreed to cancel 386 existing RSU time-vested awards. The same number of awards were re-issued with both time and performance-based vesting conditions whereas the previous awards contained only time-vested conditions, allowing the Company to ensure the tax deductibility of the

RSU payouts as 162(m) performance-based compensation. The cancellation and replacement was accounted for as a modification. For purposes of measuring compensation expense for performance awards, the amount of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. The recognition of compensation expense associated with performance-based stock awards requires defined criteria for assessing achievement and judgment in assessing the probability of meeting the performance goals. Assuming performance goals are achieved, the Company does not expect to record incremental stock-based compensation expense as a result of the modification.

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

## 9. Fair Value Measurements

The FASB's Accounting Standards Codification 820, "Fair Value Measurements and Disclosures" requires the valuation of assets and liabilities required or permitted to be either recorded or disclosed at fair value based on hierarchy of available inputs as follows:

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).

As of September 30, 2014, the carrying amount of the principal under the Company's Amended and Restated 2013 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. As of September 30, 2014, the Company used Level 2 inputs to determine the fair value of its Amended and Restated 2013 Credit Facility.

The Company measured its contingent consideration liability arising from the acquisition of Sport Truck using Level 3 unobservable inputs (see Note 13 - Acquisition). The fair value of the contingent consideration liability associated with the achievement of adjusted EBITDA targets is estimated at each balance sheet date by applying a Black-Scholes model to the Company's most recent financial projection. The unobservable inputs to the valuation model that have the most significant effect on the estimated fair value of the Company's contingent consideration liability are the projected results, the probabilities that actual results will exceed the projection and the volatility surrounding the expected results. The Company estimated the probabilities of actual results exceeding the projection during various years of the earn-out at values ranging from 65% to 85% as of September 30, 2014, compared to an overall estimate of 75% for all annual periods at the acquisition date. Additionally, volatility was measured at 32% as of September 30, 2014, compared to 41% at the acquisition date. The fair value of contingent consideration was estimated at \$18,898 as of September 30, 2014, a reduction of \$137 from the acquisition date valuation of \$19,035. The change in fair value is recorded in general and administrative expense in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2014.

## 10. Income Taxes

	For the three months ended September 30,		For the nine months ended September 30,		
	2014	2013	2014	2013	
Provision for income taxes	\$3,328	\$2,872	\$5,015	\$7,834	
Effective tax rates	24.4	% 22.4	% 16.8	% 29.0	%

For the three and nine months ended September 30, 2014, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted primarily from a second quarter discrete tax benefit of \$3,848, or \$0.10 per basic and fully diluted share, related to the reapportionment of income amongst the jurisdictions where the Company does business. The Company periodically evaluates opportunities to enhance tax efficiencies and to minimize tax liabilities through operating, legal and administrative strategies. The reapportionment benefit relates to tax years 2009 through 2013 and resulted from the Company's examination of evolving laws, existing court cases, and its business practices. The tax benefit includes the impact of a reduction in the rate used to measure the Company's net deferred tax liability and unrecognized tax benefit. The benefit has been accounted for as a change in estimate. Additionally,

for the three and nine months ended September 30, 2014, the effective tax rate benefited from the expiration of the statute of limitations that allowed the Company to release a portion of its liability for unrecognized tax benefits, relating to the uncertainty of amortization and depreciation expenses which were a result of Compass' acquisition of us in 2008 and from the domestic production activity deduction. These income tax benefits were partially offset by 2014 state taxes.

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

For the three and nine months ended September 30, 2013, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted from the benefits of the reversal of a portion of its unrecognized tax benefit liability, the domestic production activity deduction and research and development tax credits. On January 3, 2013, the American Taxpayer Relief Act of 2012 was signed into law reinstating the federal research and development credit for the 2012 and 2013 years. Accordingly, the benefit related to the 2012 federal research and development credit of approximately \$440 was recorded in the first quarter of 2013 as a discrete item. The benefit related to 2013 research activities was included in the full year effective tax rate. There was no federal research and development credit for the three and nine months ended September 30, 2014 due to expiration of the statute. These income tax benefits were partially offset by state income taxes.

The following table summarizes the activity related to the Company's unrecognized tax benefits (in thousands):

Beginning balance as of December 31, 2013	\$7,796	
Increase related to current year tax positions	1,684	
Decrease due to expiration of statute of limitations	(1,388	)
Decrease due to change in estimated state tax rate	(510	)
Ending balance as of September 30, 2014	\$7,582	

As of September 30, 2014, the Company had \$7,582 of unrecognized tax benefits, of which approximately \$6,000, if recognized, would favorably impact the effective tax rate. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. The Company believes it is reasonably possible that certain federal, foreign, and state tax matters may be concluded in the next 12 months. Specific positions that may be resolved include issues involving the deductibility of amortization and depreciation deductions which were incurred as a result of the acquisition of the Company in 2008. The Company estimates that it is reasonably possible that the unrecognized tax benefits at September 30, 2014 could be reduced by approximately \$1,400 in the next twelve months.

## 11. 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 restricted stock units, 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 September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$10,291	\$9,924	\$24,813	\$19,195
Weighted average shares used to compute basic earnings per share	36,904	35,013	36,658	33,983
Dilutive effect of employee stock plans	949	1,410	1,115	1,125
Weighted average shares used to compute diluted earnings per share	37,853	36,423	37,773	35,108
Earnings per share:				
Basic	\$0.28	\$0.28	\$0.68	\$0.56

Diluted	\$0.27	\$0.27	\$0.66	\$0.55
---------	--------	--------	--------	--------

The Company did not exclude any potentially dilutive shares from the calculation of diluted earnings per share for the three and nine months ended September 30, 2014 and 2013, 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)

## 12. 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 September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
United States	\$36,647	\$27,005	\$99,823	\$72,358
International	53,501	55,288	132,807	135,129
Total sales	\$90,148	\$82,293	\$232,630	\$207,487

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

	As of September 30, 2014	As of December 31, 2013
United States	\$17,069	\$12,259
International	2,097	1,159
Total long-lived assets	\$19,166	\$13,418

## 13. Acquisition

## Sport Truck, USA, Inc.

On March 31, 2014, the Company acquired certain assets and assumed certain liabilities of Sport Truck. The transaction was accounted for as a business combination. In connection with the acquisition, the Company paid cash of \$40,770, after certain working capital adjustments, in accordance with the asset purchase agreement. Certain members of Sport Truck's executive management team agreed to refund up to \$1,432 of the proceeds from the sale, on a graduated basis, if they terminate employment prior to March 31, 2017. As a result, such payments have been excluded from the acquisition consideration, and will be recognized as compensation expense over the expected three year service period. As of September 30, 2014, prepaid compensation of \$487 and \$702 is included in prepaids and other current assets and other assets, respectively, in the accompanying condensed consolidated balance sheet. Prior to the acquisition, Sport Truck was a distributor of the Company's products. The total consideration was increased by the effective settlement of trade receivables in the amount of \$473, which represented the recorded amount and as a result, no gain or loss was recorded upon settlement.

The Company agreed to contingent consideration of up to \$29,295 upon achievement of adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") targets of the acquired business through 2016, subject to adjustments defined in the asset purchase agreement. Performance compared to the targets is measured annually over a three year period, and payment of the contingent consideration will be made upon final determination of the adjusted EBITDA for each year. The estimated acquisition date fair value of the contingent consideration was \$19,035, based on a Black-Scholes model. See Note 9 - Fair Value Measurements.

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

The purchase price of Sport Truck is allocated to the assets acquired and liabilities assumed based on their estimated respective fair values as of March 31, 2014 with the excess purchase price allocated to goodwill. The Company's allocation of the purchase price to the net tangible and intangible assets acquired and liabilities assumed is as follows:

Acquisition consideration	
Cash consideration	\$40,770
Settlement of pre-existing accounts	473
Contingent consideration	19,035
Total consideration at closing	\$60,278
Fair market values	
Other current and non-current assets	\$10,534
Property, plant and equipment	4,488
Customer relationships	19,000
Trademarks and brands	16,270
Goodwill	11,962
Total assets acquired	62,254
Accounts payable and accrued expenses	1,976
Total liabilities assumed	1,976
Purchase price allocation	\$60,278

The values assigned to the identifiable intangible assets were determined by discounting the estimated future cash flows associated with these assets to their present value. The goodwill of \$11,962 reflects the strategic fit of Sport Truck with the Company's operations. Sport Truck is well-aligned with the Company's mission of improving vehicle performance, delivering best in-class service, and entering into strategic and adjacent markets. The Company will amortize the acquired customer relationships asset over its expected useful life of 15 years. Trademarks, brand names and goodwill are expected to have an indefinite life, and will be subject to impairment testing. The goodwill is expected to be deductible for income tax purposes.

The Company incurred \$157 and \$1,402 of transaction costs in conjunction with the Sport Truck acquisition for the three and nine months ended September 30, 2014, respectively, which is included in general and administrative expense in the accompanying condensed consolidated statements of income. Additional costs of \$277 were incurred in association with financing the transaction and are included in loan fees. See the Note 6 - Debt.

The following unaudited pro forma financial information shows the combined results of operations of the Company and Sport Truck, as if the acquisition had occurred as of the beginning of the periods presented. The pro forma results include the effects of the elimination of intercompany sales and profits, the amortization of purchased intangible assets and acquired inventory valuation step-up, interest expense on the term debt secured to finance the acquisition, and the net tax benefit of the above adjustments calculated at the statutory federal tax rate of 35%. Sport Truck was operated as a S Corporation for federal taxation purposes. A pro forma adjustment has been made to reflect the income taxes that would have been recorded at the federal statutory rate based on Sport Truck's net income.

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations or of the results that would have occurred had the acquisition taken place in the periods noted below.

	For the nine months ended September 30,	
	2014	2013
Pro forma sales	\$242,077	\$232,017
Pro forma net income	\$25,709	\$19,572
Pro forma basic earnings per share	\$0.70	\$0.58
Pro forma diluted earnings per share	\$0.68	\$0.56
Total Sport Truck sales included in the condensed consolidated statements of income	\$22,917	
Sport Truck net income included in the condensed consolidated statements of income	\$2,370	

## 14. Related Party Agreement

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. While the Company was a majority owned subsidiary, Compass provided and incurred the cost of these services to meet its own obligations as a public company.

Subsequent to the secondary offering in July 2014, these services are not within the scope of Compass' compliance requirements. Compass has agreed to provide these services on the Company's behalf through March 31, 2016 at an estimated annual cost of approximately \$150.

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 31, 2013, as filed with the Securities and Exchange Commission (“SEC”) on March 11, 2014 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 the context otherwise requires, the terms “FOX,” the “Company,” “we,” “us,” and “our” in this Quarterly Report on Form 10-Q 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 includes forward-looking statements, which are subject to the “safe harbor” created by section 27A of the Securities Act of 1933, as amended, 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,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “likely,” “potential” or “could be” 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; and
- future economic or market conditions.

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 2013 Annual Report on Form 10-K filed with the SEC on March 11, 2014 could cause or contribute to actual results differing materially from those set forth in any

17

---

## Table of Contents

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 of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

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.

### Recent Developments

#### Share Repurchase Program

On November 3, 2014, the Company's Board of Directors authorized a share repurchase program for up to \$40 million of the Company's common stock outstanding. The shares may be repurchased in the open market or in privately negotiated transactions from time-to-time and in accordance with applicable laws, rules and regulations. The share repurchase program is expected to be executed, as market conditions allow, through 2015. The Company intends to fund the share repurchase program from borrowings, cash on hand and cash flow. The share repurchase program may be amended, suspended or discontinued at any time and does not commit the Company to repurchase any shares of its common stock.

#### Secondary Offering

In July 2014, certain selling stockholders, including Compass Group Diversified Holdings LLC ("Compass"), sold 5.75 million shares of our common stock at a price of \$15.50 per share, less underwriting discounts and commissions, in a secondary public offering. The total shares sold include 0.75 million 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. The Company incurred approximately \$0.1 million and \$0.5 million of expenses in connection with the offering during the three and nine months ended September 30, 2014, respectively.

#### Asset Acquisition of Sport Truck, USA, Inc.

On March 31, 2014, through our wholly owned subsidiary, ST USA Holding Corp. ("ST USA"), we acquired certain assets and assumed certain liabilities of Sport Truck USA, Inc. ("Sport Truck"), a full service, globally recognized distributor of aftermarket suspension solutions, some of which have historically incorporated our products. Sport Truck designs, markets, and distributes high quality lift kit solutions primarily through its brands, BDS Suspension and Zone Offroad Products.

In connection with the acquisition, we paid cash of approximately \$40.8 million. The acquisition was financed with debt and includes a potential earn-out opportunity of up to a maximum of \$29.3 million payable over the next three years, contingent upon the achievement of certain performance-based financial targets. See Item 1A, "Risk Factors" of Part I of our 2013 Annual Report on Form 10-K filed with the SEC on March 11, 2014 for a discussion of risks related to acquisitions.

#### 2013 Credit Facility Amended and Restated

In August 2013, we entered into a credit facility with Sun Trust Bank and other named lenders (the "2013 Credit Facility"). The 2013 Credit Facility provided a revolving line of credit. On March 31, 2014, in connection with our asset purchase of Sport Truck, we amended and restated the 2013 Credit Facility (the "Amended and Restated 2013 Credit Facility"). The Amended and Restated 2013 Credit Facility provided a maturing secured term loan in the principal amount of \$50.0 million, subject to quarterly principal 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 original facility.

## Table of Contents

### Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on March 11, 2014, other than below.

### Critical Accounting Policies

Fair Value of Financial Instruments - Financial Accounting Standards Board Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures" requires the valuation of assets and liabilities required or permitted to be either recorded or disclosed at fair value based on hierarchy of available inputs as follows:

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;

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).

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk.

As of September 30, 2014, we used Level 2 inputs to determine the fair value of our Amended and Restated 2013 Credit Facility because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio. We measured our contingent consideration liability arising from our acquisition of Sport Truck using Level 3 unobservable inputs. The fair value of the contingent consideration liability associated with the achievement of adjusted EBITDA targets is estimated at each balance sheet date by applying a Black-Scholes model to our most recent financial projection. The unobservable inputs to the valuation model that have the most significant effect on the estimated fair value of our contingent consideration liability are the projected results, the probabilities that actual results will exceed the projection and the volatility surrounding the expected results.

### Changes in Estimates

In the second quarter of 2014, we concluded an analysis of legal developments and business practices relative to the apportionment of income for state tax purposes that resulted in a change in estimate regarding income taxes. As a result, we recorded a discrete tax benefit in the nine months ended September 30, 2014 of \$3.8 million, or \$0.10 per basic and fully diluted share, related to the reapportionment of 2009 to 2013 income amongst the jurisdictions where the Company does business.



Table of Contents

## Recent Accounting Pronouncements

See Note 1 to the accompanying notes to unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

## Seasonality

Our business is seasonal. In each 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. We believe this seasonality is due to the delivery of new products, including our suspension products related to the new mountain bike season, during the late spring and summer each year.

## Results of Operations

The table below summarizes our results of operations.

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Sales	\$90,148	\$82,293	\$232,630	\$207,487
Cost of sales	61,601	56,960	160,113	146,074
Gross profit	28,547	25,333	72,517	61,413
Operating expenses:				
Sales and marketing	5,282	3,621	14,244	10,382
Research and development	3,468	2,500	10,228	7,442
General and administrative	4,202	3,098	12,932	8,588
Amortization of purchased intangibles	1,684	1,341	4,719	4,023
Total operating expenses	14,636	10,560	42,123	30,435
Income from operations	13,911	14,773	30,394	30,978
Other expense, net:				
Interest expense	291	2,015	722	3,968
Other expense (income), net	1	(38	) (156	) (19
Other expense, net	292	1,977	566	3,949
Income before income taxes	13,619	12,796	29,828	27,029
Provision for income taxes	3,328	2,872	5,015	7,834
Net income	\$10,291	\$9,924	\$24,813	\$19,195

Table of Contents

The following table sets forth our gross profit as well as our operating and other income and expenses and other information for the periods presented, expressed as a percentage of total sales.

	For the three months ended September 30,		For the nine months ended September 30,		
	2014	2013	2014	2013	
Sales	100.0	% 100.0	% 100.0	% 100.0	%
Cost of sales	68.3	69.2	68.8	70.4	
Gross profit	31.7	30.8	31.2	29.6	
Operating expenses:					
Sales and marketing	5.9	4.4	6.1	5.0	
Research and development	3.8	3.0	4.4	3.6	
General and administrative	4.7	3.8	5.6	4.1	
Amortization of purchased intangibles	1.9	1.6	2.0	1.9	
Total operating expenses	16.3	12.8	18.1	14.6	
Income from operations	15.4	18.0	13.1	15.0	
Other expense, net:					
Interest expense	0.3	2.4	0.3	1.9	
Other expense (income), net	—	—	(0.1	)	—
Other expense, net	0.3	2.4	0.2	1.9	
Income before income taxes	15.1	15.6	12.9	13.1	
Provision for income taxes	3.7	3.5	2.2	3.8	
Net income	11.4	% 12.1	% 10.7	% 9.3	%

Three months ended September 30, 2014 compared to three months ended September 30, 2013

**Sales**

Sales for the three months ended September 30, 2014 increased approximately \$7.9 million, or 9.5%, compared to the same period in 2013. The sales increase reflects 50.5% growth in powered vehicle products and 8.1% decrease in mountain bike products for the three months ended September 30, 2014 compared to the same prior year period. The decrease in bike sales was attributable to various factors, including industry supply chain issues, increased competitive environment in certain product categories, and weaker sell through of our products than initially anticipated.

Sales growth was primarily driven by an increase of \$13.8 million in sales to aftermarket customers in the three months ended September 30, 2014 compared to the same period in 2013. The increase in sales to aftermarket customers was primarily due to the acquisition of Sport Truck, along with higher end user demand for our FOX branded products. Sport Truck contributed \$10.5 million to our sales in the three months ended September 30, 2014. A portion of Sport Truck's sales consist of the value of FOX products sold through Sport Truck. Sales to our OEMs decreased approximately \$5.9 million to \$62.6 million during the three months ended September 30, 2014 compared to \$68.6 million for the same period in 2013.

**Cost of sales**

Cost of sales for the three months ended September 30, 2014 increased approximately \$4.6 million, or 8.1%, compared to the same period in 2013. The increase in cost of sales was driven primarily by an increase in product sales, partially offset by cost reductions resulting from initiatives which are targeted at improving manufacturing and supply chain efficiencies, as well as continued execution of our overall product design for manufacturability program. For the three months ended September 30, 2014 our gross margin was 31.7% compared to 30.8% for the same period in 2013. The 0.9% improvement in our gross profit margin was primarily due to the continued execution of these operational efficiency initiatives.

Table of Contents

## Operating expenses

Total operating expenses for the three months ended September 30, 2014 increased approximately \$4.1 million, or 38.6%, over the same period in 2013. Approximately \$1.6 million of the increase in operating expenses was due to the inclusion of Sport Truck's operating expenses in our consolidated results for the three months ended September 30, 2014. Approximately \$0.3 million of the increase was due to the expenses related to the integration of Sport Truck. Additionally, \$0.5 million of the increase in operating expense was due to higher stock compensation incurred in the three months ended September 30, 2014 when compared to the prior year period. The additional stock compensation expense is a result of equity awards with a four year vesting and expense recognition period. The balance of the growth in operating expenses was due to additional costs incurred to operate as a public company and normal growth in the business as we make additional investments in infrastructure, brand and technology.

When expressed as a percentage of sales, operating expenses increased to 16.2% of sales for the three months ended September 30, 2014 compared to 12.8% of sales in the same period in 2013.

Within operating expenses, our sales and marketing expenses increased in the three months ended September 30, 2014 by approximately \$1.7 million to \$5.3 million from \$3.6 million in the same period in 2013. The increase was due to additional personnel, promotional activities and outside services as we continue to invest in promoting our company and brand, and as well as the inclusion of \$0.8 million of Sport Truck's sales and marketing expenses in our results.

Our research and development expenses increased in the three months ended September 30, 2014 by approximately \$1.0 million to \$3.5 million from \$2.5 million in the same period in 2013. Approximately \$0.2 million of the increase was due to additional personnel, \$0.1 million was due to Sport Truck, with the balance due to additional product development related expenses as we continue to invest in new and innovative technologies.

Our general and administrative expenses increased in the three months ended September 30, 2014 by approximately \$1.1 million to \$4.2 million from \$3.1 million in the same period in 2013. Approximately \$0.3 million of the increase was due to the expenses related to the integration of the Sport Truck acquisition which closed earlier in the year. Stock compensation expense attributable to general and administrative personnel increased by approximately \$0.4 million when compared to the same period in 2013. The remaining balance of the increase was due to the inclusion of approximately \$0.4 million of Sport Truck's general and administrative expenses in our results.

Amortization of purchased intangible assets in the three months ended September 30, 2014 increased by approximately \$0.3 million, primarily as a result of the acquisition of Sport Truck.

## Income from operations

Income from operations for the three months ended September 30, 2014 decreased approximately \$0.9 million, or 5.8%, compared to income from operations in the same period in 2013. The decrease was largely attributable to higher operating expenses, including the integration of Sport Truck, additional stock compensation and infrastructure investments mentioned above, which more than offset the increases in gross profits from our higher sales for the three months ended September 2014 as compared to the prior year.

## Other expense, net

Other expense, net for the three months ended September 30, 2014 decreased by approximately \$1.7 million to \$0.3 million in the three months ended September 30, 2014, compared to \$2.0 million in the same period in 2013. The decrease was primarily due to the decrease in interest expense. Within other expense, net, interest expense decreased in the three months ended September 30, 2014 by \$1.7 million due to the \$1.4 million non-cash write off for unamortized loan origination costs in the three months ended September 30, 2013 and a more favorable borrowing rate under our 2013 Credit Facility. Other income, net for the three months ended September 30, 2014 was consistent with other expense, net for the same period in 2013.

## Income taxes

The effective tax rates were 24.4% and 22.4% for the three months ended September 30, 2014 and 2013, respectively. The increase in our effective tax rate was primarily due to the loss of the federal R&D tax credit deduction in the U.S which has not yet been approved by Congress for 2014. For the three months ended September 30, 2014 and 2013, the difference between our effective rate and the 35% federal statutory rate was primarily caused by the expiration of the statute of limitations that allowed us to release a liability for unrecognized tax benefits relating to the uncertainty of amortization and depreciation expenses which were a result



Table of Contents

of Compass' acquisition of us in 2008, the domestic production activity deduction, and in 2013, the research and development credit. These benefits were partially offset by state taxes.

Net income

As a result of the factors described above, our net income increased \$0.4 million, or 3.7%, to \$10.3 million in the three months ended September 30, 2014 from \$9.9 million for the same period in 2013.

Nine months ended September 30, 2014 compared to nine months ended September 30, 2013

Sales

Sales for the nine months ended September 30, 2014 increased approximately \$25.1 million, or 12.1%, compared to the same period in 2013. The sales increase reflects 40.8% growth in powered vehicle products and a 2.0% decrease in mountain bike products for the nine months ended September 30, 2014 compared to the same prior year period. The slight decrease in bike sales was attributable to various factors during this recent period, including industry supply chain issues, increased competitive environment in certain product categories, and weaker sell through of our products than initially anticipated.

Our aftermarket sales increased approximately \$28.7 million in the nine months ended September 30, 2014 compared to the same period in 2013. The increase in sales to aftermarket customers was primarily due to the acquisition of Sport Truck, along with higher end user demand for our FOX branded products. Sport Truck contributed \$22.9 million to our sales in the nine months ended September 30, 2014. A portion of Sport Truck's sales consist of the value of FOX products sold through Sport Truck. Sales to our OEMs decreased approximately \$3.5 million to \$163.3 million during the nine months ended September 30, 2014 compared to \$166.8 million for the same period in 2013. The decrease in OEM business was largely due to lower sales within the most recent quarter which offset increases achieved previously throughout the year.

Cost of sales

Cost of sales for the nine months ended September 30, 2014 increased approximately \$14.0 million, or 9.6%, compared to the same period in 2013. The increase in cost of sales was driven primarily by an increase in product sales, partially offset by cost reductions resulting from initiatives which are targeted at improving manufacturing and supply chain efficiencies, as well as continued execution of our overall product design for manufacturability program. For the nine months ended September 30, 2014 our gross margin was 31.2% compared to 29.6% for the same period in 2013. The 1.6% improvement in our gross profit margin was due to the continued execution of these operational efficiency initiatives.

Operating expenses

Total operating expenses for the nine months ended September 30, 2014 increased approximately \$11.7 million, or 38.4%, over the same period in 2013. Approximately \$3.5 million of the increase was due to the inclusion of Sport Truck's operating expenses incurred since the acquisition date in our consolidated results for the nine months ended September 30, 2014. Approximately \$2.1 million of the increase was due to the expenses related to significant corporate transactions. Additionally, \$1.3 million of the increase in operating expense was due to higher stock compensation incurred in the nine months ended September 30, 2014 when compared to the prior year period. The balance of the growth in operating expenses was due to additional costs incurred to operate as a public company and normal growth in the business as we make additional investments in infrastructure, brand and technology.

When expressed as a percentage of sales, operating expenses increased to 18.1% of sales for the nine months ended September 30, 2014 compared to 14.6% of sales in the same period in 2013.

Within operating expenses, our sales and marketing expenses increased in the nine months ended September 30, 2014 by approximately \$3.9 million to \$14.2 million from \$10.4 million in the same period in 2013. The increase was primarily due to additional personnel, promotional activities and outside services as we continue to invest in promoting our company and brand, and as well as the inclusion of \$1.6 million in Sport Truck's sales and marketing expenses in our results.

Our research and development expenses increased in the nine months ended September 30, 2014 by approximately \$2.8 million to \$10.2 million from \$7.4 million in the same period in 2013. The increase was primarily due to an additional \$0.5 million in personnel related expenses and an increase of approximately \$0.8 million in proto-type products and projects as we continue to invest in new and innovative technologies.



Table of Contents

Our general and administrative expenses increased in the nine months ended September 30, 2014 by approximately \$4.3 million to \$12.9 million from \$8.6 million in the same period in 2013. Approximately \$2.1 million of the increase was due to the expenses related to significant corporate transactions, including the recently completed secondary offering of our common stock by certain selling stockholders, the Sport Truck acquisition, and costs incurred to claim a \$3.8 million tax benefit related to the reapportionment of income which were all completed earlier in the year. Stock compensation expense attributable to general and administrative personnel increased by approximately \$1.2 million when compared to prior year. Additionally, as a result of our August 2013 IPO, we incurred approximately \$1.0 million of incremental costs in the nine months ended September 30, 2014 associated with operating as a public company. The remaining balance of the increase was due to the inclusion of approximately \$0.9 million of Sport Truck's general and administrative expenses in our results, partially offset by the non-recurrence of certain expenses incurred in the nine months ended September 30, 2014.

Amortization of purchased intangible assets in the nine months ended September 30, 2014 increased approximately \$0.7 million, primarily as a result of the acquisition of Sport Truck.

#### Income from operations

Income from operations for the nine months ended September 30, 2014 decreased approximately \$0.6 million, or 1.9% compared to income from operations in the same period in 2013.

#### Other expense, net

Other expense, net for the nine months ended September 30, 2014 decreased by approximately \$3.4 million to \$0.6 million compared to \$3.9 million in the same period in 2013 due to decreased interest expense. Within other expense, net, interest expense decreased in the nine months ended September 30, 2014 by \$3.2 million due to the \$1.4 million non-cash write off for unamortized loan origination costs for the nine months ended September 30, 2013, lower borrowings and a more favorable interest rate under our Amended and Restated 2013 Credit Facility. Other income, net for the nine months ended September 30, 2014 was consistent with other expense, net for the same period in 2013.

#### Income taxes

Income tax expense for the nine months ended September 30, 2014 decreased by approximately \$2.8 million to \$5.0 million compared to income tax expense of \$7.8 million in the same period in 2013. The decrease in expense resulted primarily from the aforementioned reapportionment benefit of \$3.8 million.

The effective tax rates were 16.8% and 29.0% for the nine months ended September 30, 2014 and 2013, respectively.

For the nine months ended September 30, 2014, the difference between our effective tax rate and the 35% federal statutory rate resulted primarily from the \$3.8 million reapportionment benefit and the expiration of the statute of limitations that allowed us to release a portion of our aforementioned liability for unrecognized tax benefits.

Additionally, our effective tax rate was benefited as a result of the domestic production activity deduction. These income tax benefits were partially offset by 2014 state taxes.

For the nine months ended September 30, 2013, the difference between our effective rate and the 35% federal statutory rate resulted primarily from the expiration of the statute of limitations that allowed us to release a portion of our aforementioned liability for unrecognized tax benefits. Additionally, our effective tax rate was benefited by the domestic production activity deduction and research and development tax credits, including \$0.4 million related to 2012 activities but recorded upon the reinstatement of the lapsed research and development credit in the first quarter of 2013. These benefits were partially offset by state taxes.

#### Net income

As a result of the factors described above, our net income increased \$5.6 million, or 29.3%, to \$24.8 million in the nine months ended September 30, 2014 from \$19.2 million for the same period in 2013.

Table of Contents

## Liquidity and Capital Resources

Our primary cash needs are to support working capital and capital expenditures. We have generally financed our historical 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 intellectual technology. A summary of our operating, investing and financing activities are shown in the following table:

(in thousands)	For the nine months ended September 30,	
	2014	2013
Net cash provided by operating activities	\$ 18,727	\$ 5,082
Net cash used in investing activities	(45,782	) (2,478
Net cash provided by financing activities	27,349	866
Effect of exchange rate changes on cash	(40	) 11
Increase in cash and cash equivalents	\$ 254	\$ 3,481

## Operating activities

Cash provided by operating activities primarily consists of net income, adjusted for certain non-cash items primarily, depreciation and amortization, stock-based compensation including related excess tax benefits, and deferred income taxes, offset by net cash invested in working capital.

In the nine months ended September 30, 2014, cash provided by operating activities was \$18.7 million and consisted of net income of \$24.8 million plus non-cash items totaling \$3.7 million less changes in operating assets and liabilities and other adjustments totaling \$9.8 million. Non-cash items and other adjustments consisted primarily of depreciation and amortization of \$7.1 million and stock-based compensation of \$3.0 million, offset by a \$3.3 million change in deferred taxes and an excess tax benefit from the exercise of stock options of \$3.0 million. Cash invested in operating assets and liabilities is a result of increases in accounts receivable, inventory and prepaid expenses and other current assets of \$5.3 million, \$3.9 million, and \$2.0 million, respectively, partially offset by an increase in income taxes payable of \$2.8 million. Our working capital investment is driven by normal growth of our business. Additionally, the increase in prepaid expenses and other current assets resulted primarily from prepaid compensation expense related to amounts paid for Sport Truck and renewal payments made under our corporate insurance programs.

In the nine months ended September 30, 2013, cash provided by operating activities was \$5.1 million. Net income of \$19.2 million plus non-cash items totaling \$7.5 million were offset by changes in operating assets and liabilities totaling \$21.6 million. Non-cash items and other adjustments consisted primarily of depreciation and amortization of \$5.8 million, stock-based compensation of \$1.7 million, and the write-off of unamortized costs from related party debt of \$1.4 million, offset by a \$1.2 million change in deferred taxes. Cash invested in operating assets and liabilities consisted primarily of increases in accounts receivable and inventory of \$13.9 million and \$12.1 million, respectively, partially offset by increases in accounts payable and accrued expenses of \$2.6 million and \$1.9 million, respectively.

## Investing activities

Cash used in investing activities primarily relates to strategic acquisitions of businesses and investments in our manufacturing and general infrastructure through the acquisition of property and equipment.

In the nine months ended September 30, 2014, cash used in investing activities was \$45.8 million which consisted primarily of \$40.8 million in cash consideration paid for the acquisition of Sport Truck. Additionally, we invested \$3.7 million in property and equipment.

In the nine months ended September 30, 2013, cash used in investing activities was \$2.5 million, which consisted of purchases of property and equipment.

## Financing activities

Cash 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.



Table of Contents

In the nine months ended September 30, 2014, net cash provided by financing activities was \$27.3 million, which consisted primarily of proceeds from issuance of term debt of \$49.7 million net of origination fees, partially offset by net repayments of \$19.3 million and \$8.0 million of term debt and revolving credit, respectively, all under the 2013 Amended and Restated Credit Facility. Additionally, \$4.9 million was provided by the exercise of stock options. In the nine months ended September 30, 2013, net cash provided by financing activities was \$0.9 million, which consisted of net proceeds of \$36.4 million from our August 2013 initial public offering and \$23.7 million of net borrowings under our 2013 Credit Facility, offset by net repayment of \$59.2 million in revolving and term debt under our related party credit facility which was terminated in conjunction with our initial public offering.

2013 Credit Facility Amended and Restated

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 Sport Truck, we amended and restated the 2013 Credit Facility. The Amended and Restated 2013 Credit Facility provides a maturing secured term loan in the principal amount of \$50.0 million, subject to quarterly principal payments, and extends 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 facility. In the nine months ended September 30, 2014, we made principal payments of \$19.3 million on the term loan, including \$18.0 million in advance of scheduled maturity. The Amended and Restated 2013 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 2.75:1.0, both ratios calculated as defined in the agreement. We were in compliance with the covenants as of September 30, 2014.

Other Commitments

In connection with our acquisition of Sport Truck, we have agreed to pay up to \$29.3 million in additional consideration through 2017, contingent upon the achievement of certain financial performance goals through 2016. See Note 13 - Acquisition and Note 9 - Fair Value Measurements in our Notes to Condensed Consolidated Financial Statements. No other material contractual obligation has changed since the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on March 11, 2014.

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 and 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, 2013 and filed with the SEC on March 11, 2014.

**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 September 30, 2014. 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 September 30, 2014.

**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

From time to time we are involved in legal proceedings incidental to our business, in particular intellectual property related disputes, product liability claims, as well as other litigation of a non-material nature in the ordinary course of business. In accordance with ASC 450, "Contingencies", we have not accrued for material loss contingencies relating to any legal proceedings because we believe that, although unfavorable outcomes in proceedings may be possible, they are not considered by our management to be probable and reasonably estimable. We believe that the outcome of any such pending matters, either individually or in the aggregate, will not have a material impact on our business or financial condition.

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 in this Form 10-Q, 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 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 high-performance products. For instance, during 2013, we generated more than 70% of our sales from products that we introduced during the last three years. 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 mountain 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.

Product development requires significant financial, technological and other resources. While we expended approximately \$9.8 million, \$9.7 million and \$10.4 million for our research and development efforts in 2011, 2012 and 2013, 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 suspension industry is highly competitive. We compete with a number of other manufacturers that produce and sell suspension products to OEMs and aftermarket dealers and distributors, including OEMs that produce their own

line of suspension 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 suspension products or through competitor consolidations. We could also

Table of Contents

face competition from well-capitalized entrants into the high-performance suspension 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 products, and the mountain bikes 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 our brand image. We have focused on building our brand through producing products that we believe are innovative, high in performance and highly reliable. In addition, our brand benefits from our strong relationships with our OEM customers and dealers and distributors and through marketing programs aimed at mountain 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 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.

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

- failure to develop new products that are innovative, high-performance and reliable;
- internal product quality control issues;
- product quality issues on the mountain 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 to 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 mountain bikes and their suspension components 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 2013, approximately 66% of our sales were generated from the sale of suspension products for high-end mountain bikes. Part of our success has been attributable to the growth in the high-end mountain 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 mountain bikes does not increase or declines, the number of mountain bike enthusiasts seeking

Table of Contents

such mountain bikes or premium priced suspension products for their mountain 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 mountain 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 high-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 high-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.

A disruption in the operations of our manufacturing facilities, including any disruption in connection with moving a majority of the manufacturing of our mountain bike products to our new facility in Taiwan, could have a negative effect on our business, financial condition or results of operations.

During 2013, the sale of mountain bike suspension products accounted for approximately 66% of our sales. We are in the process of transitioning the majority of our mountain bike products manufacturing operations to our new facility in Taichung, Taiwan. We contemplate that this transition will continue through 2015, at which time we anticipate that the majority of the manufacturing of our mountain bike products will be completed in Taiwan. During our transition process, we will incur some duplication of facilities, equipment and personnel, the amount of which could vary materially from our projections. Also, the transition process could cause manufacturing problems and give rise to execution risks, including disruptions to employees, negative impact on employee morale and retention, delays in recognizing efficiencies or increased costs of manufacturing, and adverse impacts on our product quality and delivery times. In addition, we could encounter unforeseen difficulties resulting from the distance and time zone differences between our main operations in California and our new Taiwan manufacturing facility. Should any of these problems occur, our business, financial condition or results of operations could be negatively affected.

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.

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 eleven 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.



Table of Contents

We grew our sales from approximately \$197.7 million in 2011 to approximately \$272.7 million in 2013. This growth rate may be unsustainable. Our future growth will depend upon various factors, including the strength of our brand image, our ability to continue to produce innovative suspension products, consumer acceptance of our products, competitive conditions in the marketplace, the growth in emerging markets for products requiring high-end suspension products and, in general, the continued growth of the high-end mountain 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.

The professional athletes and race teams who use our products are an important aspect of our brand image. 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 brand 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 brand 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 mountain 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 mountain bike producing OEM

customers reduce production of their high-end mountain 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 39%, 40% and 42% of our sales in 2011, 2012 and 2013, 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,

Table of Contents

financial condition or results of operations. For example, our fourth largest OEM customer based upon our sales in 2013 has notified us that it will temporarily suspend purchases of our products in the second half of 2014 due to a planned changeover in its product models. While we expect that an updated model incorporating our suspension products will eventually be re-launched there is no assurance when, or if, that will occur. A longer than anticipated loss of sales to this customer or any similar issues with our other OEM customers could negatively impact our business and results of operations.

Although we refer to the branded mountain bike OEMs that use our products throughout this document as “our customers,” “our OEM customers” or “our mountain bike OEM customers,” branded mountain bike OEMs often use contract manufacturers to manufacture and assemble their bikes. As a result, even though we typically negotiate price and volume requirements directly with our mountain bike OEM customers, it is the contract manufacturers that frequently place the purchase orders with us and are responsible for paying us (rather than the branded mountain bike OEMs). Giant is an OEM and contract manufacturer used by certain of our mountain bike OEM customers. Sales to Giant accounted for approximately 12%, 13% and 17% of our sales in 2011, 2012 and 2013, 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.

Currency exchange rate fluctuations could result in decreased gross margins.

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 in U.S. Dollars. As the majority of our expenses are also in U.S. Dollars, we are somewhat insulated from currency fluctuations. 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. Furthermore, as we transfer a majority of our manufacturing operations for our mountain bike products to our new facility in Taiwan, we anticipate that a growing percentage of our expenses will be 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 gross margins.

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:

- 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 mountain bike component manufacturers enter into the suspension market. Most of the mountain bikes incorporating our suspension products also utilize products and components manufactured by other mountain 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 both suspension and other complementary mountain bike products which we do not sell. Moreover,

Table of Contents

such mountain bike component manufacturers could begin manufacturing mountain bike suspension products or bundle their bike components with suspension products 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.

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, and we could incur substantial costs to, redesign our products or defend legal actions, and such costs 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. As of June 5, 2014, we had 50 patents and had approximately 94 patents pending on file 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 SHOX, 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 this may adversely affect our business. 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 mountain 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 and additional overtime, all of which in turn adversely impact our cost of sales and our gross margin. For example, due to increased demand for our products beyond what was forecasted, our 2012 production exceeded our budgeted production, which resulted in increased expedited freight costs. The current continuing economic weakness and uncertainty in the United States, Europe and other countries has made, and may continue to make, accurate forecasting particularly challenging.

## Table of Contents

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.

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 mountain bike or powered vehicle is purchased from an authorized OEM where our product is incorporated as original equipment on the purchased mountain 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. We may in the future 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.

We may also be required to or voluntarily participate in recalls involving our products or components if any prove to be defective. For example, during calendar year 2013, we initiated a voluntary recall of certain model year 2013 32 and 34 Evolution Series suspension forks having 120 mm - 160 mm of travel with certain dampers manufactured by us between March 1, 2012 and November 30, 2012. In addition to the direct costs related to this or other recalls we may be forced to undertake in the future, such events could 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 and 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 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 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 Amended and Restated 2013 Credit Facility places operating restrictions on us and creates default risks.

We entered into a credit facility with a third-party lender in connection with our IPO, which we refer to as the 2013 Credit Facility. In connection with our purchase of the business of Sport Truck in March 2014, the 2013 Credit Facility was amended and restated and is referred to herein as the Amended and Restated 2013 Credit Facility. The Amended and Restated 2013 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 Amended and Restated 2013 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.



Table of Contents

Our outstanding indebtedness under our secured 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.

In connection with our purchase of the business of Sport Truck in March 2014, we entered into the Amended and Restated 2013 Credit Facility, which provides 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. Borrowings under our Amended and Restated 2013 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 Amended and Restated 2013 Credit Facility will increase our interest expense.

As of March 31, 2014, we had \$50.0 million of indebtedness, bearing interest at a variable rate, outstanding under the Amended and Restated 2013 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 \$50.0 million of variable interest rate indebtedness that was outstanding as of March 31, 2014, a hypothetical 100 basis point increase or decrease in the interest rate on our variable rate debt would have resulted in an approximately \$0.5 million change to our interest expense for fiscal 2013.

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

As of September 30, 2014, we employed approximately 915 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 and 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.

Table of Contents

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 in the past incurred expenditures relating to such matters.

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. Federal, state, local, foreign and international laws and regulations relating to land-use, 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 mountain bikes, have also 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. 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 in the future, 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 by 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. In connection with the transfer of a majority of the manufacturing of our mountain bike products to Taiwan, we could experience difficulties locating new qualified suppliers geographically located closer to these facilities. Furthermore, such new 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

Table of Contents

delays caused by our suppliers, whether in connection with our manufacturing operations in the United States or in Taiwan, our business, financial condition and 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 and steel. 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.

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

The U.S. Securities and Exchange Commission, or the SEC, has promulgated final rules mandated by the Dodd-Frank Act regarding disclosure of the use of tin, tantalum, tungsten and gold, known as conflict minerals, in products manufactured by public companies. These new rules require ongoing due diligence to determine whether such minerals originated from the Democratic Republic of Congo, or the DRC, or an adjoining country and whether such minerals helped finance the armed conflict in the DRC. Reporting obligations for the rule begin May 31, 2014 and are required annually thereafter. As a new public company, we will be required to comply with the reporting obligations beginning with our fiscal year ended December 31, 2015. There will be costs associated with complying with these disclosure requirements, including costs to determine the origin of conflict minerals in our products. The implementation of these rules and their effect 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 the due diligence procedures we implement 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, the implementation of these rules could have a material adverse effect on our business, results of operations and/or financial condition.

The transition of a majority of the manufacturing of our mountain bike products to our new 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.

As we transition the majority of the manufacturing of our mountain bike products to our new facility in Taiwan, no assurances can be given that consumers may 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 they will be manufactured overseas. Such perceptions could adversely impact our business, financial condition or results of operations.

Federal health care reform legislation could increase our expenses and adversely impact our results of operations. In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the United States. These health care reform laws require employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. We are unable at this time to accurately predict the impact that these laws will have on our future health care benefit and insurance premium costs and our costs for temporary employees that we obtain through agencies. If these costs increase and we

are unable to raise the prices we charge our customers to cover these increased expenses, such increases in costs could adversely impact our business, financial condition or results of operations.

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

Table of Contents

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.

We may 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.

In the first quarter of 2014, we acquired certain assets of Sport Truck, a full service distributor of aftermarket suspension solutions, and, in the fourth quarter of 2013, we acquired certain assets of Toxoholics GmbH, our third party Germany-based distributor and service center. 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 earnouts 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.

We have a significant contingent earnout liability relating to the acquisition of the business of Sport Truck, which may adversely affect our liquidity and financial condition and results of operations.

On March 31, 2014, we acquired the business of Sport Truck for approximately \$40.9 million. Under the terms of the asset purchase agreement for the acquisition, we will be obligated to make additional earnout payments up to an aggregate of approximately \$29.3 million if the EBITDA of the acquired business for the fiscal years ending December 31, 2014, 2015 and 2016 exceeds approximately \$8.4 million, \$10.8 million and \$13.5 million, respectively, subject to a maximum amount of approximately \$8.1 million, \$9.9 million and \$11.3 million for each respective year. As of March 31, 2013, we had accrued approximately \$19.0 million for such potential earnout payments based on the application of the Black-Scholes model to management's financial projections. If, in the future, management's estimation techniques indicate an increase to the earnout liability or if higher EBITDA (as defined in the acquisition agreement) for any period is actually achieved, we will need to accrue additional amounts. Such additional accrual could adversely impact our liquidity, financial condition and results of operations.

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.

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 quarterly fluctuations that we report in the future 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 over each of the past few years due to the rapid growth in sales we have experienced during the same period.

Our beliefs regarding the future growth of the high-performance suspension 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 mountain 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 high-performance suspension products. Our beliefs regarding the outlook of the high-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



## Table of Contents

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.

### 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 \$20.75 and \$14.33 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;
- sales of our common stock by us, our significant stockholders or our directors or executive officers; and
- the expiration of contractual lock-up agreements.

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. Some companies that have had volatile market prices for their securities have had securities class actions filed against them. A suit filed against us, regardless of its merits or outcome, could cause us to incur substantial costs and could divert management's attention. Future sales of our shares, or the perception that such sales may occur, could cause our stock price to decline.

If our existing stockholders sell substantial amounts of our common stock in the public market, or are perceived by the public market as intending to sell, the trading price of our common stock could decline. As of May 31, 2014, we had 36,657,826 shares of common stock outstanding, 12,531,143 of which are freely tradable, without restriction, in the public market. As of May 31, 2014, 24,126,683 shares of common stock outstanding were held by directors, executive officers and other affiliates and are subject to volume and manner of sale limitations under Rule 144 under the Securities Act.

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.

In addition, our Amended and Restated Certificate of Incorporation authorizes us to issue 90,000,000 shares of common stock, of which 36,657,826 shares were outstanding as of May 31, 2014. 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, acquisition or otherwise. If any of these additional shares described are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

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 of 2002, 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-

39

---

Table of Contents

on-pay” votes on executive compensation and shareholder advisory votes on golden parachute compensation. We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year during which we have total annual gross revenues of \$1 billion or more; (ii) the last day of the fiscal year following the fifth anniversary of the completion of our IPO; (iii) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt; or (iv) the date on which we are deemed to be a “large accelerated filer” under the Exchange Act.

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

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.

Our Sponsor and our directors and officers and insiders have substantial control over us and will be able to influence corporate matters.

Our Sponsor beneficially owns approximately 41.2% of our outstanding common stock, and our directors and executive officers and their affiliates beneficially own, in the aggregate, approximately 52.7% of our outstanding common stock. As a result, these stockholders are able to exercise significant influence over all matters requiring stockholder approval, including the election of directors, amendment of our Amended and Restated Certificate of Incorporation, and approval of any merger, consolidation, or sale of all, or substantially all, of our assets or other significant corporate transactions. In addition, our Sponsor continues to have input on all matters before our board of directors because our director Elias Sabo is affiliated with our Sponsor. Our Sponsor may also delay or prevent a change of control or otherwise discourage a potential acquirer from attempting to obtain control of us, even if such a change of control would benefit our other stockholders. So long as our Sponsor or any of its affiliates continue to indirectly own a significant amount of our outstanding common stock, they will continue to be able to significantly influence our decisions.

In addition, our Sponsor is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that may compete directly or indirectly with us. Our Sponsor may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us.

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, or 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;

- from and after the date that our Sponsor and its affiliates no longer collectively beneficially own (as determined pursuant to Rule 13d-3 under the Exchange Act), directly or indirectly, at least a majority of the voting power of all then outstanding shares of our capital stock entitled to vote generally in the election of directors, or the Trigger Date,

prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; 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) or, until the Trigger Date, our Sponsor; from and after the Trigger Date, require supermajority stockholder voting for our stockholders to effect certain amendments to our Charter Documents; and

Table of Contents

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, or 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.

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 September 30, 2014:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Share Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
7/1 - 7/31	—	\$—	—	—
8/1 - 8/31	44,150	\$ 15.01	—	—
9/1 - 9/30	—	\$—	—	—
Total	44,150	\$ 15.01	—	—

- (1) Represents shares acquired from holders of restricted stock unit awards to satisfy tax withholding obligations.
- (2) On November 3, 2014, the Company's Board of Directors authorized a share repurchase program for up to \$40 million of the Company's common shares outstanding.

Table of Contents

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File 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	
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.				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.				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.				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

\*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.

In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not  
\*\* filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933,  
as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended,  
and otherwise is not subject to liability under these sections.



Table of Contents

SIGNATURES

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

FOX FACTORY HOLDING CORP.

By: /s/ Zvi Glasman  
Zvi Glasman, Chief Financial Officer  
(Principal Financial and Accounting Officer)

November 5, 2014

Table of Contents

## INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File 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	
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.				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.				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.				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

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.

In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not \*\* filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

