

FOX FACTORY HOLDING CORP
Form 10-Q
August 01, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 29, 2018

OR

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

Commission File Number: 001-36040

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

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

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

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

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

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

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

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

Exchange Act.

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

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As of July 29, 2018, there were 37,822,327 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FOX FACTORY HOLDING CORP.

Condensed Consolidated Balance Sheets

(in thousands, except per share data)

	As of June 29, 2018	As of December 29, 2017
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,686	\$ 35,947
Accounts receivable (net of allowances of \$542 and \$676 at June 29, 2018 and December 29, 2017, respectively)	77,878	61,060
Inventory	95,374	84,841
Prepays and other current assets	16,530	21,100
Total current assets	212,468	202,948
Property, plant and equipment, net	48,393	43,636
Deferred tax assets	8,638	2,669
Goodwill	88,406	88,438
Intangibles, net	86,974	90,044
Other assets	445	551
Total assets	\$ 445,324	\$ 428,286
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 58,315	\$ 40,813
Accrued expenses	32,363	32,608
Reserve for uncertain tax positions	1,491	7,787
Current portion of long-term debt	5,512	5,038
Total current liabilities	97,681	86,246
Line of credit	5,110	35,585
Long-term debt, less current portion	55,263	58,020
Deferred rent	552	645
Total liabilities	158,606	180,496
Commitments and contingencies (Refer to <u>Note 7 - Commitments and Contingencies</u>)		
Redeemable non-controlling interest	14,188	12,955
Stockholders' equity		
Preferred stock, \$0.001 par value — 10,000 authorized and no shares issued or outstanding as of June 29, 2018 and December 29, 2017	—	—
Common stock, \$0.001 par value — 90,000 authorized; 38,649 shares issued and 37,759 outstanding as of June 29, 2018; 38,497 shares issued and 37,607 outstanding as of December 29, 2017	38	38
Additional paid-in capital	112,028	112,793
Treasury stock, at cost; 890 common shares as of June 29, 2018 and December 29, 2017	(13,754)	(13,754)
Accumulated other comprehensive loss	(1,021)	(168)
Retained earnings	175,239	135,926
Total stockholders' equity	272,530	234,835

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Total liabilities, redeemable non-controlling interest and stockholders' equity \$ 445,324 \$ 428,286

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

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

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Sales	\$ 156,825	\$ 120,811	\$ 286,617	\$ 227,141
Cost of sales	104,412	81,755	192,561	154,370
Gross profit	52,413	39,056	94,056	72,771
Operating expenses:				
Sales and marketing	9,802	7,067	18,535	13,660
Research and development	6,058	4,982	12,254	9,464
General and administrative	10,779	8,122	19,973	16,202
Amortization of purchased intangibles	1,499	696	3,068	1,391
Fair value adjustment of contingent consideration and acquisition-related compensation	—	—	—	1,447
Total operating expenses	28,138	20,867	53,830	42,164
Income from operations	24,275	18,189	40,226	30,607
Other expense, net:				
Interest expense	832	505	1,631	1,094
Other (income) expense	(81)	(78)	200	467
Other expense, net	751	427	1,831	1,561
Income before income taxes	23,524	17,762	38,395	29,046
Provision for (benefit of) income taxes	4,711	4,036	(1,868)	4,792
Net income	18,813	13,726	40,263	24,254
Less: net income attributable to non-controlling interest	(444)	—	(670)	—
Net income attributable to FOX stockholders	\$ 18,369	\$ 13,726	\$ 39,593	\$ 24,254
Earnings per share:				
Basic	\$0.49	\$0.37	\$1.05	\$0.65
Diluted	\$0.47	\$0.35	\$1.02	\$0.63
Weighted average shares used to compute earnings per share:				
Basic	37,722	37,330	37,674	37,232
Diluted	38,856	38,725	38,846	38,643

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

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FOX FACTORY HOLDING CORP.

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(Unaudited)

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Net income	\$18,813	\$13,726	\$40,263	\$24,254
Other comprehensive (loss) income				
Foreign currency translation adjustments, net of tax effects	(1,324)	(36)	(853)	1,217
Other comprehensive (loss) income	(1,324)	(36)	(853)	1,217
Comprehensive income	17,489	13,690	39,410	25,471
Less: comprehensive income attributable to non-controlling interest	444	—	670	—
Comprehensive income attributable to FOX stockholders	\$17,045	\$13,690	\$38,740	\$25,471

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

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FOX FACTORY HOLDING CORP.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the six months ended	
	June 29, 2018	June 30, 2017
OPERATING ACTIVITIES:		
Net income	\$40,263	\$24,254
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,144	4,705
Stock-based compensation	3,831	4,289
Deferred taxes and uncertain tax positions	(12,269)	(6,838)
Change in fair value of contingent consideration	—	(150)
Changes in operating assets and liabilities:		
Accounts receivable	(17,762)	(295)
Inventory	(10,945)	(17,422)
Income taxes payable	(1,037)	6,079
Prepays and other assets	4,217	(651)
Accounts payable	18,373	13,960
Accrued expenses	1,040	(6,918)
Net cash provided by operating activities	32,855	21,013
INVESTING ACTIVITIES:		
Purchases of property and equipment	(9,046)	(5,347)
Net cash used in investing activities	(9,046)	(5,347)
FINANCING ACTIVITIES:		
Payments on line of credit	(30,476)	—
Payment of contingent consideration liability	—	(5,382)
Repayment of debt	(2,344)	(1,875)
Repurchases from stock compensation program, net	(4,033)	(402)
Net cash used in financing activities	(36,853)	(7,659)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(217)	58
CHANGE IN CASH AND CASH EQUIVALENTS	(13,261)	8,065
CASH AND CASH EQUIVALENTS—Beginning of period	35,947	35,280
CASH AND CASH EQUIVALENTS—End of period	\$22,686	\$43,345
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$11,681	\$5,484
Interest	\$1,627	\$973

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

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements

(in thousands, except per share amounts)

(unaudited)

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

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

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

Basis of Presentation - The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America ("U.S.") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. 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 fiscal year ended December 29, 2017 included in the Company's Annual Report on Form 10-K as filed with the SEC. In management's opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, that are necessary for a fair presentation of financial results for the interim periods presented. Operating results for any quarter are not necessarily indicative of the results for the full fiscal year.

The Company operates on a 52-53 week fiscal calendar. For 2018 and 2017, the Company's fiscal year will end or has ended on December 28, 2018 and December 29, 2017, respectively. The three and six month periods ended June 29, 2018 and June 30, 2017 each included 13 weeks and 26 weeks.

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

Summary of Significant Accounting Policies - Beginning the first quarter of fiscal year 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), as updated by ASU 2016-20. There have been no other changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 29, 2017, as filed with the SEC on February 27, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

Revenue Recognition - Revenues are generated from the sale of ride dynamics products to customers worldwide. The Company's ride dynamics products are solutions that improve performance of power vehicles and bikes. Power vehicles include Side-by-Sides, on-road vehicles with off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, and motorcycles.

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product to a customer, generally at the time of shipment. Contracts are generally in the form of purchase orders and are governed by standard terms and conditions. For larger OEMs, the Company may also enter into master agreements.

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

Provisions for discounts, rebates, sales incentives, returns, and other adjustments are generally provided for in the period the related sales are recorded, based on management's assessment of historical trends and projection of future results. Certain pricing provisions that provide the customer with future discounts are considered a material right. Such material rights result in the deferral of revenue that are recognized when the rights are exercised by the customer. Measuring the material rights requires judgments including forecasts of future sales and product mix. At June 29, 2018, the balance of deferred revenue related to pricing provisions was \$241. These amounts are expected to be recognized over the next 12 months.

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 for 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.

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

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

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

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

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

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

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

Recent Accounting Pronouncements - In May 2014, the FASB and International Accounting Standards Board issued their converged standard on revenue recognition, ASU 2014-09, updated December 2016 with the release of ASU 2016-20. This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

The Company adopted this guidance as of the beginning of the first quarter of fiscal year 2018, using the modified retrospective implementation method. The Company applied the guidance to all open contracts at the date of initial application. The primary impact of adopting the standard resulted from certain pricing provisions within contracts that provide the customer with a material right. Under the new standard, revenue attributed to such pricing provisions is deferred and recognized when the right is exercised by the customer. The Company recorded a cumulative effect adjustment of \$368 gross and \$279 net of taxes, to the opening balance of retained earnings to reflect the cumulative effect of the adoption of the standard.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the existing guidance for lease accounting. This ASU will require lessees to recognize leases with durations greater than 12 months on the balance sheet. This guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2018 and early adoption is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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

In October 2016, the FASB issued ASU 2016-16, Income Taxes: Intra-Entity Transfer of Assets Other Than Inventory, which improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The Company adopted ASU 2016-16 effective in the first quarter of fiscal year 2018. The adoption of ASU 2016-16 did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, which provides more guidance to an entity when they are assessing if transactions should be accounted for as acquisitions of assets or businesses. The clarification of the definition of a business impacts various areas of accounting such as acquisitions, disposals, goodwill, and consolidations. The Company adopted ASU 2017-01 effective in the first quarter of fiscal year 2018. The adoption of ASU 2017-01 did not have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Improvements to Non-employee Share-Based Payment Accounting, which removes some of the unique requirements related to accounting for share-based payment awards issued to non-employees for non-financing transactions. The Company adopted ASU 2018-07 in the second quarter of fiscal year 2018. The adoption of ASU 2018-07 did not have a material impact on the Company's consolidated financial statements.

2. Revenues

The following table summarizes total sales by product category:

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Power vehicle products	\$82,247	\$56,039	\$154,381	\$110,094
Bike products	74,578	64,772	132,236	117,047
Total sales	\$156,825	\$120,811	\$286,617	\$227,141

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

The following table summarizes total sales by sales channel:

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
OEM	\$86,994	\$73,089	\$160,052	\$133,737
Aftermarket	69,831	47,722	126,565	93,404
Total sales	\$156,825	\$120,811	\$286,617	\$227,141

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

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
North America	\$98,565	\$73,182	\$181,734	\$136,987
Asia	30,968	29,744	52,171	50,096
Europe	25,493	16,289	49,408	36,742
Rest of the world	1,799	1,596	3,304	3,316
Total sales	\$156,825	\$120,811	\$286,617	\$227,141

3. Inventory

Inventory consisted of the following:

	June 29, 2018	December 29, 2017
Raw materials	\$62,441	\$51,371
Work-in-process	8,170	1,233
Finished goods	24,763	32,237
Total inventory	\$95,374	\$84,841

4. Property, Plant and Equipment, net

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

	June 29, 2018	December 29, 2017
Machinery and manufacturing equipment	\$34,233	\$33,664
Leasehold improvements	11,432	9,919
Internal-use computer software	11,153	7,819
Building and land	8,811	8,811
Information systems, office equipment and furniture	7,197	7,715
Transportation equipment	3,747	3,325
Total	76,573	71,253
Less: accumulated depreciation and amortization	(28,180)	(27,617)
Property, plant and equipment, net	\$48,393	\$43,636

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

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

	June 29, 2018	December 29, 2017
United States	\$42,887	\$ 38,450
International	5,506	5,186
Total long-lived assets	\$48,393	\$ 43,636

5. Accrued Expenses

Accrued expenses consisted of the following:

	June 29, 2018	December 29, 2017
Payroll and related expenses	\$12,420	\$ 13,211
Warranty	6,142	6,481
Income tax payable	5,203	6,562
Other accrued expenses	8,598	6,354
Total	\$32,363	\$ 32,608

Activity related to warranties is as follows:

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Beginning warranty liability	\$6,596	\$5,003	\$6,481	\$4,593
Charge to cost of sales	503	1,391	1,797	3,053
Costs incurred	(957)	(1,317)	(2,136)	(2,569)
Ending warranty liability	\$6,142	\$5,077	\$6,142	\$5,077

6. Debt

Second Amended and Restated Credit Facility

In August 2013, the Company entered into a credit facility with Sun Trust Bank and other named lenders which has been periodically amended and restated; the last restatement occurred on May 11, 2016 and was further amended on August 11, 2016, June 12, 2017 and November 30, 2017 (as most recently amended and restated and as further amended, the "Second Amended and Restated Credit Facility"). The Second Amended and Restated Credit Facility, which matures on May 11, 2021, provides a revolving line of credit and a maturing secured term loan with a refinanced principal balance of \$75,000. The term loan is subject to quarterly amortization payments.

The Second Amended and Restated Credit Facility provides for interest at either a rate based on the London Interbank Offered Rate, or LIBOR, plus a margin ranging from 1.50% to 2.50%, or based on the prime rate offered by SunTrust Bank plus a margin ranging from 0.50% to 1.50%. At June 29, 2018, the one-month LIBOR and prime rates were 2.09% and 5.00%, respectively. At June 29, 2018, our weighted average interest rate on outstanding borrowing was 3.96%. The Second Amended and Restated Credit Facility is secured by substantially all of the Company's assets, restricts the Company's ability to make certain payments and engage in certain transactions, and also requires that the Company satisfy customary financial ratios. The Company was in compliance with the covenants as of June 29, 2018.

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

Additionally, the existing credit facility permits up to \$15,000 of the aggregate revolving commitment to be used by the Company for issuance of letters of credit. As of June 29, 2018, the Company utilized \$5,000 in the form of a standby letter of credit in support of subsidiary operations. The letter of credit expires in November 2018.

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

	June 29, 2018	December 29, 2017
Amount outstanding	\$5,000	\$35,000
Standby letter of credit	\$5,000	\$5,000
Available borrowing capacity	\$90,000	\$60,000
Maximum borrowing capacity	\$100,000	\$100,000
Maturity date	May 11, 2021	

As of June 29, 2018, future principal payments for long-term debt, including the current portion, are summarized as follows:

For fiscal year:

2018 (remaining six months)	\$2,813
2019	5,625
2020	7,031
2021	45,625
Total term debt	61,094
Debt issuance cost	(319)
Long-term debt, net of issuance cost	60,775
Less: current portion	(5,512)
Long-term debt less current portion	\$55,263

Other Indebtedness

The Company had \$110 and \$585 outstanding under a vendor associated line of credit as of June 29, 2018 and December 29, 2017, respectively.

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. See Note 12 - Related Party Agreements for additional information on related party operating leases.

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

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

Legal Proceedings - A lawsuit was filed on December 17, 2015 by SRAM Corporation (“SRAM”) in the U.S. District Court, Northern District of Illinois, against the Company’s wholly-owned subsidiary, RFE Canada Holding Corp. (“RFE Canada”). The lawsuit alleges patent infringement of U.S. Patent number 9,182,027 (“’027 Patent”) and violation of the Lanham Act. SRAM filed a second lawsuit in the same court against RFE Canada on May 16, 2016. That lawsuit alleges patent infringement of U.S. Patent number 9,291,250 (“’250 Patent”). The Company believes the lawsuits are without merit and intends to vigorously defend itself. As such, the Company has filed, before the U. S. Patent and Trademark Appeals Board (“PTAB”), for Interparties Reviews (“IPR”) of the ’027 Patent and separately the same for the ’250 Patent. In April 2018, the PTAB issued opinions in the ’027 Patent petition cases stating that the Company has not shown the claims of the ’027 Patent to be obvious. Regarding the PTAB ’027 opinions, the Company has filed a Notice of Appeal to the Court of Appeals for the Federal Circuit. The IPR for the ’250 patent is pending in the PTAB and the PTAB has stayed the ex-parte re-exam of the ’250 patent.

In a separate action the Company filed a lawsuit on January 29, 2016 in the U.S. District Court, Northern District of California against SRAM. That lawsuit alleges SRAM’s infringement of two separate Company owned patents, specifically U.S. Patent numbers 6,135,434 and 6,557,674. A second lawsuit was filed by the Company on July 1, 2016 in the U.S. District Court, Northern District of California against SRAM alleging infringement of the Company’s U.S. Patent numbers 8,226,172 and 8,974,009. These lawsuits have been moved to U.S. District Court, District of Colorado and are otherwise proceeding. The stay of the SRAM lawsuits against the Company have been lifted by the U.S. District Court, Northern District of Illinois. The Company filed and SRAM filed lawsuits are now moving forward as scheduled by the courts.

Due to the inherent uncertainties of litigation, the Company is not able to predict either the outcome or a range of reasonably possible losses, if any, at this time. Accordingly, no amounts have been recorded in the consolidated financial statements for the settlement of these matters. Were an unfavorable ruling to occur, or if factors indicate that a loss is probable and reasonably estimable, the Company’s business, financial condition or results of operations could be materially and adversely affected.

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

Other Commitments - On November 30, 2017, the Company through FF US Holding Corp. acquired an 80% interest in the business of Flagship, Inc. (“Tuscany”). The stockholders’ agreement provides the Company with a call option (the “Call Option”) to acquire the remaining 20% of Tuscany any time from November 30, 2019 through November 30, 2024 at a value which approximates fair market value. In addition, if the Call Option has not been exercised as of November 30, 2024, the non-controlling owners shall be entitled to exercise a put option on November 30, 2024 and for a 180 day period thereafter, which would require the Company to purchase all of the remaining shares held by the non-controlling owners at a price that approximates fair market value.

Other Contingencies - On June 21, 2018, the U.S. Supreme Court (the “Court”) decided *South Dakota v. Wayfair, Inc., et al.*, holding that internet retailers do not have to maintain a physical presence in a state in order to be required to collect the state’s sales and use tax. Ultimately, the Court remanded the case to the South Dakota Supreme Court on the question of “whether some other principle in the Court’s Commerce Clause doctrine might invalidate the Act,” which may delay federal legislation on the issue. However, as a result of the Court’s decision, additional states may now begin requiring all remote sellers, primarily those engaged in e-commerce, to register, collect and remit sales and use taxes on transactions with in-state customers. Numerous states have either enacted legislation or informally indicated that they will not assert liability for uncollected taxes on a retroactive basis. Nevertheless, the Company believes that it is possible that it will incur a liability for uncollected sales tax on some portion of its e-commerce sales through June 29, 2018. Any retroactively imposed liability is not expected to be material to the Company’s results of operations or financial position because direct end-user sales in states where the Company is not registered comprise a small portion

of total revenues.

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

8. Fair Value Measurements

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

	June 29, 2018				December 29, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities:								
Credit facility	\$-\$60,775	\$—	\$60,775	\$60,775	\$-\$63,058	\$—	\$63,058	\$63,058
Non-controlling interest subject to put provisions	—	14,188	14,188	14,188	—	12,955	12,955	12,955
Total liabilities measured at fair value	\$-\$60,775	\$14,188	\$74,963	\$74,963	\$-\$63,058	\$12,955	\$76,013	\$76,013

There were no transfers of assets or liabilities between Level 1, Level 2, and Level 3 categories of the fair value hierarchy during the three and six month period ended June 29, 2018.

The Company used Level 2 inputs to determine the fair value of its Second Amended and Restated Credit Facility. As of June 29, 2018 and December 29, 2017, the carrying amount of the principal under the Company's Second Amended and Restated Credit Facility approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio.

The Company has potential obligations to purchase non-controlling interests held by third parties in the Tuscany subsidiary. These obligations are in the form of put provisions and are exercisable at the third-party owners' discretion within the specified periods outlined in the put provision within the Tuscany stockholders' agreement. If these put provisions were exercised, the Company would be required to purchase the third-party owners' non-controlling interests at the appraised fair value. The Company measured the fair value of the non-controlling interests using Level 3 unobservable inputs, including the expected growth rate, income tax rate, and discount factor applied to forecasted results. The estimated fair values of the non-controlling interests can fluctuate and the amount at which these obligations may ultimately be settled could vary significantly from our future estimates depending upon market conditions. Changes in fair value measurement of the non-controlling interests are recognized as adjustments to additional paid-in capital on the consolidated balance sheet.

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

	Redeemable Non-Controlling Interest (level 3 measurement)
Balance at December 29, 2017	\$ 12,955
Net income attributable to non-controlling interest	670
Change in fair value	563
Balance at June 29, 2018	\$ 14,188

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Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

9. Stockholders' Equity

Share Repurchase Program and Secondary Stock Offerings

In February 2016, the Company's Board of Directors authorized the Company's 2016 share repurchase program (the "2016 Repurchase Program"), permitting repurchases of up to an aggregate of \$40,000 in shares of common stock. The plan expired on December 31, 2017. The Company repurchased 890 shares for a total of \$13,754 under both the 2016 Repurchase Program and the prior repurchase program of the Company, which expired on December 31, 2015. Shares of common stock repurchased under such programs are accounted for as treasury stock under the cost method. In March 2017, the Company closed a secondary offering, whereby the selling stockholders sold an additional 5,574 shares of the Company's common stock at a price of \$26.65 per share, less underwriting discounts and commissions. The total shares sold included 466 shares, which were also sold by certain selling stockholders, in connection with the underwriters' option to purchase additional shares. The Company did not sell shares or receive any proceeds from the sales of shares by the selling stockholders. As a result of the March 2017 secondary offering, Compass Group Diversified Holdings LLC ("Compass") no longer holds any equity interest in the Company. The Company incurred approximately \$113 and \$249 of expenses in connection with the secondary offering during the three and six months ended June 30, 2017.

Equity Incentive Plans

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

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Cost of sales	\$ 131	\$ 146	\$ 233	\$ 180
Sales and marketing	139	121	299	268
Research and development	154	66	296	178
General and administrative	1,361	2,047	3,003	3,663
Total	\$ 1,785	\$ 2,380	\$ 3,831	\$ 4,289

The following table summarizes the activity for the Company's unvested restricted stock units ("RSU") for the six months ended June 29, 2018.

	Number of shares outstanding	Weighted-average grant date fair value
Unvested at December 29, 2017	800	\$ 23.91
Granted	189	\$ 33.33
Canceled	(8)	\$ 17.17
Vested	(289)	\$ 20.05
Unvested at June 29, 2018	692	\$ 28.17

As of June 29, 2018, the Company had approximately \$15,562 of unrecognized stock-based compensation expense related to RSUs, which will be recognized over the remaining weighted-average vesting period of approximately 2.83 years.

During the six months ended June 29, 2018, 11 shares of common stock were issued due to the exercise of stock options, resulting in proceeds of \$62. No options to purchase common stock were expired or forfeited during the six months ended June 29, 2018. As of June 29, 2018, stock-based compensation expense related to stock options has been fully recognized.

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

10. Income Taxes

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Provision for income taxes	\$4,711	\$4,036	\$(1,868)	\$4,792
Effective tax rates	20.0 %	22.7 %	(4.9)%	16.5 %

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. The TCJA reduced the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on unremitted earnings of certain foreign subsidiaries, creates a new minimum tax on certain foreign earnings, and provides incentives for U.S. companies to sell and license goods and services abroad, among other changes.

Effective January 1, 2016, the Company sold the net assets of its Taiwan branch operations and its shares of Fox Factory IP Holding Corp. to Fox Factory Switzerland GmbH. The Company's Taiwan operations were as a result, organized as a branch of the Swiss entity (together, "Fox Switzerland"). Fox Switzerland owns or licenses the Company's non-U.S. intangible property and generates earnings that, prior to the enactment of the TCJA, were not subject to payment of U.S. income taxes or accrual of deferred tax expense because the Company asserted that such earnings were permanently invested outside the U.S. The unremitted earnings of Fox Switzerland through 2017 became subject to U.S. tax as a result of the one-time transition tax provided for by the TCJA. As a result of the change in U.S. taxation, the Company no longer considers the unremitted earnings of Fox Switzerland to be permanently reinvested, and, as such, has accrued foreign withholding tax due upon remittance of dividends from Fox Switzerland, including a cumulative adjustment of \$2,026 in the fourth quarter of the fiscal year 2017.

As permitted by the SEC's Staff Accounting Bulletin 118, the Company has not completed its accounting for the tax effects of the enactment of the TCJA; however, in certain cases, as described below, the Company has made a reasonable estimate of the effects of the new law. In other cases, primarily the impact of grandfathering on limitations of deductibility of executive compensation, the Company has not been able to make a reasonable estimate because clarifying regulations have not been issued, and, as such, continues to account for those items based on its existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to the enactment. The Company has recognized provisional amounts for all items for which it was able to determine a reasonable estimate. In all cases, the Company will continue to make and refine its calculations as additional analysis is completed. In addition, the Company's estimates may be affected as interpretations of the law through regulations and common practice emerge.

Provisional amounts

Deferred Tax Assets and Liabilities: In the fourth quarter of fiscal year 2017, the Company remeasured its U.S. deferred tax assets and liabilities that give rise to future tax deductions based on the enacted tax rates in effect for the periods in which the deductions are expected to be taken. However, certain aspects of the TCJA could potentially affect the measurement of these balances or give rise to new deferred tax amounts. For example, differences between the provisional and actual calculations of the one-time transition tax could result in the need for changes to the amount of the valuation allowance on the balance that is not utilized to pay such tax. The provisional amount recorded in the fourth quarter of fiscal year 2017 related to the remeasurement of our deferred tax balance was a net benefit of \$2,448. There have been no material changes in the estimated remeasurement of our deferred tax balance in fiscal year 2018.

One-Time Transition Tax: The one-time transition tax is based on the total post-1986 earnings and profits on which U.S. tax were previously deferred. In the fourth quarter of fiscal year 2017, the Company recorded a provisional amount as an increase in income tax expense related to the one-time transition tax of \$3,706. Because of the complexities of the TCJA, the Company has estimated the amount of earnings and profits subject to the tax. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. The

Company's estimates may change when it finalizes the calculations required to determine the ultimate amount of the transition tax.

For the three months ended June 29, 2018, the difference between the Company's effective tax rate of 20.0% and the 21% federal statutory rate resulted primarily from lower foreign tax rates, lower effective federal rates on foreign derived intangible income, research and development credits, and \$880 from excess benefits related to the vesting of RSUs and exercise of stock options. These benefits were partially offset by state taxes, foreign withholding taxes and the impact of non-deductible expenses.

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Notes to Condensed Consolidated Financial Statements - continued

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(unaudited)

For the six months ended June 29, 2018, the difference between the Company's effective tax benefit of 4.9% and the 21% federal statutory rate resulted primarily from a \$9,838 impact of the favorable conclusion of the 2015 U.S. Internal Revenue Service ("IRS") audit and the recognition of related tax positions with respect to the deductibility of amortization and depreciation expense resulting from the acquisition of the Company in 2008. The benefit of the deductions was not recognized in accounting for the acquisition due to uncertainty about whether the tax position would withstand audit. The results of the audit provided basis for the Company to conclude during the first quarter of 2018 that the amortization and depreciation will likely be deductible for all open tax years. In May 2018, the Company and the IRS entered into a closing agreement that definitively resolves the deductibility and confirms the Company's prior conclusion on the matter. In addition, the effective tax rate benefited from \$1,117 of excess benefits related to the vesting of RSUs and exercise of stock options, lower foreign tax rates, lower effective federal rates on foreign derived intangible income, and research and development credits. These benefits were partially offset by state taxes, foreign withholding taxes and the impact of non-deductible expenses.

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

The Company's federal tax returns for 2013, 2014, 2016 and forward, state tax returns for 2012 forward, and foreign tax returns from 2014 forward are subject to examination by tax authorities.

The Company has obtained tax incentives in Switzerland that are effective through March 2019 that result in a rate reduction provided that the Company meets specified criteria. Upon expiration, the Company may renew the arrangement on demand, as long as the applicable law and operating criteria remain in place. The effect of the tax incentives were not material to the Company's income tax provision for the three and six months ended June 29, 2018 and June 30, 2017.

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 attributable to stockholders of the Company for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. Potentially dilutive common shares include shares issuable upon the exercise of outstanding stock options and vesting of RSUs, which are reflected in diluted EPS by application of the treasury stock method.

The following table presents the calculation of basic and diluted EPS:

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Net income attributable to FOX stockholders	\$18,369	\$13,726	\$39,593	\$24,254
Weighted average shares used to compute basic EPS	37,722	37,330	37,674	37,232
Dilutive effect of employee stock plans	1,134	1,395	1,172	1,411
Weighted average shares used to compute diluted EPS	38,856	38,725	38,846	38,643
EPS:				
Basic	\$0.49	\$0.37	\$1.05	\$0.65
Diluted	\$0.47	\$0.35	\$1.02	\$0.63

The Company did not exclude any potentially dilutive shares from the calculation of diluted EPS for the three and six months ended June 29, 2018 and June 30, 2017, as none of these shares would have been antidilutive.

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Notes to Condensed Consolidated Financial Statements - continued

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12. Related Party Agreements

Fox Factory, Inc. has a triple-net building lease for its manufacturing and office facilities in Watsonville, California. The building is owned by a member of our Board of Directors. Rent expense under this lease was \$179 and \$358 for the three and six months months ended June 29, 2018 and June 30, 2017, respectively. The lease was amended effective April 2016 to extend the term through June 30, 2020, with monthly rental payments of \$60, which are adjusted annually for a cost-of-living increase based upon the consumer price index.

On November 30, 2017, the Company acquired an 80% interest in Tuscany, which has building leases for its manufacturing and office facilities in Elkhart, Indiana. The buildings are owned by the non-controlling interest stockholders, who are now employees of the Company. Rent expense under these leases was \$86 and \$171 for the three and six months ended June 29, 2018, respectively. No rent expense was incurred for these leases for the three and six months ended June 30, 2017, respectively. The leases are effective November 30, 2017 through April 1, 2022, with monthly rental payments of \$29, which are subject to annual escalation of 7.5%.

13. Business Combinations

On November 30, 2017, the Company acquired an 80% interest in Tuscany, a designer, manufacturer and distributor of premium aftermarket powered vehicle performance packages in an asset purchase accounted for as a business combination. The purchase price of Tuscany was allocated to the assets acquired and liabilities assumed based on their estimated respective fair values as of November 30, 2017, with the excess purchase price allocated to goodwill. The allocation of the purchase price is preliminary, subject to the completion of the Company's validation of working capital and completion of its intangible valuation procedures, with the assistance of specialists.

The financial results of this subsidiary have been included in our consolidated financial statements since the date of acquisition.

The Company incurred \$214 and \$463 in transaction costs in conjunction with this acquisition during the three and six months ended June 29, 2018, respectively, which is included in general and administrative expense in the accompanying consolidated statement of income.

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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 fiscal year ended December 29, 2017, as filed with the U.S. Securities and Exchange Commission ("SEC") on February 27, 2018, 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 operating subsidiaries, on a consolidated basis.

Cautionary Note Regarding Forward-Looking Statements

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

- our ability to develop new and innovative products in our current end-markets;
- our ability to leverage our technologies and brand to expand into new categories and end-markets;
- our ability to increase our aftermarket penetration;
- our ability to accelerate international growth;
- our exposure to exchange rate fluctuations;
- the loss of key customers;
- our ability to improve operating and supply chain efficiencies;
- our ability to enforce our intellectual property rights;
- 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 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;
- the loss of key personnel, management and skilled engineers;
- our ability to successfully identify, evaluate and manage potential acquisitions and to benefit from such acquisitions;
- the outcome of pending litigation;
- future disruptions in the operations of our manufacturing facilities;
- our ability to adapt our business model to mitigate the impact of certain changes in tax laws including those enacted in the U.S. in December 2017;

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• changes in tariffs, quotas, trade barriers and other similar restrictions on sales;
• changes in the relative proportion of profit earned in the numerous jurisdictions in which we do business and in tax legislation, case law and other authoritative guidance in those jurisdictions;
• product recalls and product liability claims; 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 in Part I, Item 1A, "Risk Factors" of our 2017 Annual Report on Form 10-K filed with the SEC on February 27, 2018, could cause or contribute to actual results differing materially from those set forth in any forward-looking statement. Moreover, we operate in a very competitive and challenging environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur. Actual results, events, or circumstances could differ materially from those contemplated by, set forth in, or underlying any forward-looking statements. For all of these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements in Section 27A of the Securities Act, and Section 21E of the Exchange Act. The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

Critical Accounting Policies and Estimates

Beginning in the first quarter of fiscal year 2018, the Company adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. There have been no other changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 29, 2017, as filed with the SEC on February 27, 2018, that have had a material impact on our condensed consolidated financial statements and related notes. See Note 1 - Description of the Business, Basis of Presentation, and Summary of Significant Accounting Policies to the accompanying notes to unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further details of this update.

Recent Accounting Pronouncements

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

Seasonality

Certain portions of our business are seasonal; we believe this seasonality is due to the delivery of new products. In each of the last three fiscal years, our quarterly sales have been the lowest in the first quarter and higher in the third or fourth quarter of the year. For example, our sales in our first and third quarters of 2017 represented 22% and 27% of our total sales for the year, respectively. In addition, acquisitions such as Tuscany will affect the seasonality of our business and product mix by quarter; therefore, our 2017 sales are not necessarily reflective of the future.

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Results of Operations

The table below summarizes our results of operations:

(in thousands)	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Sales	\$ 156,825	\$ 120,811	\$ 286,617	\$ 227,141
Cost of sales	104,412	81,755	192,561	154,370
Gross profit	52,413	39,056	94,056	72,771
Operating expenses:				
Sales and marketing	9,802	7,067	18,535	13,660
Research and development	6,058	4,982	12,254	9,464
General and administrative	10,779	8,122	19,973	16,202
Amortization of purchased intangibles	1,499	696	3,068	1,391
Fair value adjustment of contingent consideration and acquisition-related compensation	—	—	—	1,447
Total operating expenses	28,138	20,867	53,830	42,164
Income from operations	24,275	18,189	40,226	30,607
Other expense, net:				
Interest expense	832	505	1,631	1,094
Other (income) expense	(81)	(78)	200	467
Other expense, net	751	427	1,831	1,561
Income before income taxes	23,524	17,762	38,395	29,046
Provision for (benefit of) income taxes	4,711	4,036	(1,868)	4,792
Net income	18,813	13,726	40,263	24,254
Less: net income attributable to non-controlling interest	(444)	—	(670)	—
Net income attributable to FOX stockholders	\$ 18,369	\$ 13,726	\$ 39,593	\$ 24,254

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

	For the three months ended		For the six months ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	66.6	67.7	67.2	68.0
Gross profit	33.4	32.3	32.8	32.0
Operating expenses:				
Sales and marketing	6.3	5.8	6.5	6.0
Research and development	3.9	4.1	4.3	4.2
General and administrative	6.9	6.7	7.0	7.1
Amortization of purchased intangibles	1.0	0.6	1.1	0.6
Fair value adjustment of contingent consideration and acquisition related compensation	—	—	—	0.6
Total operating expenses	18.1	17.2	18.9	18.5
Income from operations	15.3	15.1	13.9	13.5
Other expense, net:				
Interest expense	0.5	0.4	0.6	0.5
Other (income) expense	(0.1)	(0.1)	0.1	0.2
Other expense, net	0.4	0.3	0.7	0.7
Income before income taxes	14.9	14.8	13.2	12.8
Provision for (benefit of) income taxes	3.0	3.3	(0.7)	2.1
Net income	11.9	11.5	13.9	10.7
Less: net income attributable to non-controlling interest	(0.3)	—	(0.2)	—
Net income attributable to FOX stockholders	11.7 %	11.5 %	13.8 %	10.7 %

Three months ended June 29, 2018 compared to three months ended June 30, 2017

Sales

	For the three months ended			
(in millions)	June 29, 2018	June 30, 2017	Change (\$)	Change (%)
Power vehicle products	\$82.2	\$56.0	\$ 26.2	46.8 %
Bike products	74.6	64.8	9.8	15.1 %
Total sales	\$156.8	\$120.8	\$ 36.0	29.8 %

Sales for the three months ended June 29, 2018 increased approximately \$36.0 million, or 29.8%, compared to the three months ended June 30, 2017. Powered vehicle sales increased by \$26.2 million or 46.8% due to the inclusion of the Company's acquisition of Tuscany as well as continued high demand for on and off-road suspension products. Bike sales increased by \$9.8 million or 15.1% primarily driven by higher OEM sales.

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Cost of sales

	For the three months ended			
(in millions)	June 29, 2018	June 30, 2017	Change (\$)	Change (%)

Cost of sales \$104.4 \$81.8 \$ 22.6 27.6 %

Cost of sales for the three months ended June 29, 2018 increased approximately \$22.6 million, or 27.6%, compared to the three months ended June 30, 2017. The increase in cost of sales was driven primarily by an increase in sales.

For the three months ended June 29, 2018, our gross margin increased 110 basis points to 33.4% compared to 32.3% for the three months ended June 30, 2017. The improvement in gross margin was primarily due to increased operating leverage on higher volume and improved manufacturing efficiencies.

Operating expenses

	For the three months ended			
(in millions)	June 29, 2018	June 30, 2017	Change (\$)	Change (%)

Operating expenses:

Sales and marketing	\$9.8	\$7.1	\$ 2.7	38.0 %
Research and development	6.0	5.0	1.0	20.0
General and administrative	10.8	8.1	2.7	33.3
Amortization of purchased intangibles	1.5	0.7	0.8	114.3
Total operating expenses	\$28.1	\$20.9	\$ 7.2	34.4 %

Total operating expenses for the three months ended June 29, 2018 were \$28.1 million compared to \$20.9 million for the three months ended June 30, 2017. When expressed as a percentage of sales, operating expenses increased to 18.1% of sales for the three months ended June 29, 2018 compared to 17.2% of sales in the three months ended June 30, 2017. The increase in operating expenses is primarily a result of operating costs relating to our newly acquired Tuscany subsidiary, higher patent litigation-related expenses, investments in research and development to support future growth, and higher amortization expense on acquired intangible assets.

Within operating expenses, our sales and marketing expenses increased approximately \$2.7 million primarily due to costs incurred at our recently acquired Tuscany subsidiary of \$1.9 million, as well as increased spending in our existing business lines to continue to promote our products and grow our brand. Research and development costs increased approximately \$1.0 million primarily due to headcount investments as we continue to pursue product innovation. General and administrative expenses increased by approximately \$2.7 million due to an increase of \$1.7 million in patent litigation-related expenses, expenses of \$0.5 million incurred at Tuscany, and various other items. Amortization of purchased intangible assets for the three months ended June 29, 2018 increased by approximately \$0.8 million as compared to the three months ended June 30, 2017. The increase is primarily due to the amortization of customer relationship assets acquired in the Tuscany acquisition.

Income from operations

	For the three months ended			
(in millions)	June 29, 2018	June 30, 2017	Change (\$)	Change (%)
Income from operations	\$24.3	\$18.2	\$ 6.1	33.5 %

As a result of the factors discussed above, income from operations for the three months ended June 29, 2018 increased approximately \$6.1 million, or 33.5%, compared to income from operations for the three months ended June 30, 2017.

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Other expense, net

	For the three months ended			
(in millions)	June 29, 2018	June 30, 2017	Change (\$)	Change (%)

Other expense, net:

Interest expense	\$0.8	\$0.5	\$ 0.3	60.0 %
Other income	(0.1)	(0.1)	—	—
Other expense, net	\$0.7	\$0.4	\$ 0.3	75.0 %

Other expense, net for the three months ended June 29, 2018 increased by \$0.3 million to \$0.7 million compared to \$0.4 million for the three months ended June 30, 2017. The increase in other expense, net is primarily due to a \$0.3 million increase in interest expense in the three months ended June 29, 2018.

Income taxes

	For the three months ended			
(in millions)	June 29, 2018	June 30, 2017	Change (\$)	Change (%)

Provision for income taxes	\$4.7	\$ 4.0	\$ 0.7	17.5 %
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The effective tax rates were 20.0% and 22.7% for the three months ended June 29, 2018 and June 30, 2017, respectively.

For the three months ended June 29, 2018, the difference between our effective tax rate and the 21% federal statutory rate resulted primarily from lower foreign tax rates, lower effective federal rates on foreign derived intangible income, research and development credits, and \$0.9 million from excess benefits related to the vesting of restricted stock units ("RSUs") and exercise of stock options. These benefits were partially offset by state taxes, foreign withholding taxes and the impact of non-deductible expenses.

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

The effective tax rate for the three months ended June 29, 2018, decreased as compared to the same period in 2017 primarily as a result of the reduction in the US tax rate. The reduction in US tax rate was partially offset by a reduction in excess benefits related to the vesting of RSUs and the exercise of stock options, which are recognized in the quarter of occurrence. Because we achieved a 32% increase in pre-tax income, the reduction in the excess benefit disproportionately impacts the effective tax rate.

Net income

	For the three months ended			
(in millions)	June 29, 2018	June 30, 2017	Change (\$)	Change (%)

Net income	\$18.8	\$13.7	\$ 5.1	37.2 %
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As a result of the factors described above, our net income increased \$5.1 million, or 37.2%, to \$18.8 million in the three months ended June 29, 2018 from \$13.7 million for the three months ended June 30, 2017.

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Six months ended June 29, 2018, compared to six months ended June 30, 2017

Sales

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 29, 2018	June 30, 2017		
Power vehicle products	\$154.4	\$110.1	\$44.3	40.2 %
Bike products	132.2	117.0	15.2	13.0 %
Total sales	\$286.6	\$227.1	\$59.5	26.2 %

Sales for the six months ended June 29, 2018 increased approximately \$59.5 million or 26.2%, compared to the same period in fiscal 2017. The sales increase reflects a 40.2% increase in powered vehicle products and a 13.0% increase in bike products for the six months ended June 29, 2018 compared to the six months ended June 30, 2017. The increase in sales of powered vehicle products was due to the inclusion of the Company's acquisition of Tuscany as well as continued high demand for on and off-road suspension products. The increase in bike product sales is primarily driven by higher OEM sales.

Cost of sales

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 29, 2018	June 30, 2017		
Cost of sales	\$192.6	\$154.4	\$38.2	24.7 %

Cost of sales for the six months ended June 29, 2018 increased approximately \$38.2 million, or 24.7%, compared to the six months ended June 30, 2017. The increase in cost of sales was driven primarily by an increase in sales, partially offset by lower costs associated with various operational improvements and efficiencies.

For the six months ended June 29, 2018, our gross margin increased 80 basis points to 32.8% compared to 32.0% for the six months ended June 30, 2017. The gross margin improved primarily due to increased operating leverage on higher volume and improved manufacturing efficiencies.

Operating expenses

(in millions)	For the six months ended			
	June 29, 2018	June 30, 2017	Change (\$)	Change (%)
Operating expenses:				
Sales and marketing	\$18.5	\$13.7	\$4.8	35.0 %
Research and development	12.3	9.5	2.8	29.5
General and administrative	20.0	16.2	3.8	23.5
Amortization of purchased intangibles	3.1	1.4	1.7	121.4
Fair value adjustment of contingent consideration and acquisition-related compensation	—	1.4	(1.4)	(100.0)
Total operating expenses	\$53.9	\$42.2	\$11.7	27.7 %

Total operating expenses for the six months ended June 29, 2018 increased approximately \$11.7 million, or 27.7%, over the six months ended June 30, 2017. When expressed as a percentage of sales, operating expenses increased to 18.9% of sales for the six months ended June 29, 2018 compared to 18.5% of sales in the six months ended June 30, 2017. The increase in operating expenses is primarily a result of operating costs relating to our newly acquired Tuscany subsidiary, higher patent litigation-related expenses, investments in research and development to support

future growth, and higher amortization expense on acquired intangible assets.

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Within operating expenses, our sales and marketing expenses increased approximately \$4.8 million primarily due to costs incurred at our recently acquired Tuscany subsidiary of \$3.3 million, as well as increased spending in our existing business lines to continue to promote our products and grow our brands. Research and development expenses increased approximately \$2.8 million primarily due to \$1.4 million in headcount investments and \$0.5 million in prototype costs as we continue to pursue product innovation. General and administrative expenses increased approximately \$3.8 million due to an increase of \$2.1 million in patent litigation-related expenses, expenses of \$1.0 million incurred at Tuscany, and various other items.

Amortization of purchased intangible assets for the six months ended June 29, 2018 increased by approximately \$1.7 million as compared to the six months ended June 30, 2017. The increase is primarily due to the amortization of customer relationship assets acquired in the Tuscany acquisition.

During the first quarter of 2017, all acquisition-related compensation arrangements concluded and contingent consideration payment calculations were finalized. Accordingly, we incurred no expense after the first quarter of fiscal 2017 which resulted in a \$1.4 million decrease in the expense for the six months ended June 29, 2018 compared to the same period in 2017.

Income from operations

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 29, 2018	June 30, 2017		
Income from operations	\$40.2	\$30.6	\$ 9.6	31.4 %

As a result of the factors discussed above, income from operations for the six months ended June 29, 2018 increased approximately \$9.6 million, or 31.4%, compared to income from operations for the six months ended June 30, 2017.

Other expense, net

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 29, 2018	June 30, 2017		
Other expense, net:				
Interest expense	\$1.6	\$1.1	\$0.5	45.5 %
Other expense	0.2	0.5	(0.3)	(60.0)
Other expense, net	\$1.8	\$1.6	\$0.2	12.5 %

Other expense, net:

Interest expense	\$1.6	\$1.1	\$0.5	45.5 %
Other expense	0.2	0.5	(0.3)	(60.0)
Other expense, net	\$1.8	\$1.6	\$0.2	12.5 %

Other expense, net increased by approximately \$0.2 million to \$1.8 million for the six months ended June 29, 2018, compared to \$1.6 million for the six months ended June 30, 2017, primarily due to a \$0.5 million increase in interest expense.

Income taxes

(in millions)	For the six months ended		Change (\$)	Change (%)
	June 29, 2018	June 30, 2017		
(Benefit of) provision for income taxes	\$(1.9)	\$4.8	\$(6.7)	(139.6)%

We had an effective tax benefit rate of 4.9% for the six months ended June 29, 2018, compared to an effective tax rate of 16.5% for the six months ended June 30, 2017.

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For the six months ended June 29, 2018, the difference between our effective tax benefit rate and the 21% federal statutory rate resulted primarily from a \$9.8 million one-time impact of the favorable conclusion of our 2015 U.S. Internal Revenue Service ("IRS") audit and the recognition of related tax positions with respect to the deductibility of amortization and depreciation expense resulting from the acquisition of the Company in 2008. The benefit of the deductions was not recognized in accounting for the acquisition of the Company by our former majority shareholder due to uncertainty about whether the tax position would withstand audit. The results of the audit provided a basis for us to conclude that the amortization and depreciation will likely be deductible for all open tax years. In May 2018, the Company and the IRS entered into a closing agreement that definitively resolves the deductibility and confirms our prior conclusion on the matter. In addition, the effective tax rate benefited from \$1.1 million of excess benefits related to the vesting of RSUs and exercise of stock options, lower foreign tax rates, lower effective federal rates on foreign derived intangible income, and research and development credits. These benefits were partially offset by state taxes, foreign withholding taxes and the impact of non-deductible expenses.

For the six months ended June 30, 2017, the difference between our effective tax rate and the 35% federal statutory rate resulted primarily from lower tax rates in foreign jurisdiction where we do business and a \$4.0 million benefit from excess deductions on the exercise of stock options and vesting of RSUs, partially offset by state taxes.

The change in income tax benefit for the six months ended June 29, 2018 as compared to the tax provision to the six months ended June 30, 2017, was primarily a result of the \$9.8 million one-time impact of the favorable conclusion of the 2015 IRS audit and lower US tax rates. Offsetting the audit benefit and favorable rate change, excess benefits related to stock-based compensation were \$2.9 million lower for the six months ended June 29, 2018 compared to the six months ended June 30, 2017.

Net income

	For the six months ended			
(in millions)	June 29, 2018	June 30, 2017	Change (\$)	Change (%)
Net income	\$40.3	\$24.3	\$ 16.0	65.8 %

As a result of the factors described above, our net income increased \$16.0 million, or 65.8%, to \$40.3 million in the six months ended June 29, 2018 from \$24.3 million for the six months ended June 30, 2017.

Liquidity and Capital Resources

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

	For the six months ended	
(in thousands)	June 29, 2018	June 30, 2017
Net cash provided by operating activities	\$32,855	\$21,013
Net cash used in investing activities	(9,046)	(5,347)
Net cash used in financing activities	(36,853)	(7,659)
Effect of exchange rate changes on cash	(217)	58
(Decrease) increase in cash and cash equivalents	\$(13,261)	\$8,065
Operating activities		

Cash provided by operating activities consists of net income, adjusted for certain non-cash items, primarily depreciation and amortization, stock-based compensation, changes in deferred income taxes and uncertain tax positions, fair value adjustments of our contingent consideration, and net cash invested in working capital. In the six months ended June 29, 2018, net cash provided by operating activities was \$32.9 million and consisted of net income of \$40.3 million, less non-cash items totaling \$1.3 million and changes in operating assets and liabilities totaling \$6.1 million.

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Non-cash items and other adjustments consisted of depreciation and amortization of \$7.1 million, stock-based compensation of \$3.8 million, offset by a \$12.3 million change in deferred taxes and uncertain tax positions that included \$9.8 million related to the favorable settlement of our 2015 IRS audit.

Our investment in operating assets and liabilities is a result of an increase in accounts receivable of \$17.8 million, an increase in inventory of \$10.9 million, and a decrease in income taxes payable of \$1.0 million, partially offset by an increase in accounts payable of \$18.4 million, an increase in accrued expenses of \$1.0 million and a decrease in prepaids and other assets of \$4.2 million. The changes in inventory, accounts payable, accrued expenses, accounts receivable and prepaid and other assets are primarily due to seasonal impacts on working capital. The decrease in income taxes payable is primarily due to a reduction in accrued withholding taxes.

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

Investing activities

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

In the six months ended June 29, 2018 and June 30, 2017, net cash used in investing activities was \$9.0 million and \$5.3 million, respectively, consisting primarily of purchases of property and equipment.

Financing activities

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

In the six months ended June 29, 2018, net cash used in financing activities was \$36.9 million, which consisted of \$30.5 million paid on our line of credit and \$2.3 million paid on our term debt. In addition, we paid \$4.0 million to repurchase shares of our common stock, net of proceeds from the exercise of options as part of our stock-based compensation program.

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

Second Amended and Restated Credit Facility

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

technical amendments were made on August 11, 2016, June 12, 2017 and November 30, 2017 (as most recently amended and restated and as further amended, the "Second Amended and Restated Credit Facility"). The Second Amended and Restated Credit Facility provides a maturing secured term loan in the principal amount of \$75.0 million, subject to quarterly amortization payments, increased the availability on the line of credit to \$100.0 million, and extended the maturity of the Second Amended and Restated Credit Facility through May 11, 2021.

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The Second Amended and Restated Credit Facility is secured by substantially all of our assets, restricts our ability to make certain payments and engage in certain transactions, and also requires that we satisfy customary financial ratios, including a fixed charge coverage ratio of not less than 1.5:1.0 and a leverage ratio of not greater than 3.0:1.0, both ratios calculated as defined in the Second Amended and Restated Credit Facility. Additionally, certain disposal events can trigger prepayments. We were in compliance with the covenants as of June 29, 2018.

Other Commitments

No material contractual obligation has changed since the Company's Annual Report on Form 10-K for the year ended December 29, 2017, as filed with the SEC on February 27, 2018.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to 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 29, 2017, as filed with the SEC on February 27, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, 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, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management, under the direction and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 29, 2018. Based on the evaluation of our disclosure controls and procedures as of June 29, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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.

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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 control over financial reporting 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A lawsuit was filed on December 17, 2015 by SRAM Corporation ("SRAM") in the U.S. District Court, Northern District of Illinois, against the Company's wholly-owned subsidiary, RFE Canada Holding Corp. ("RFE Canada"). The lawsuit alleges patent infringement of U.S. Patent number 9,182,027 ("027 Patent") and violation of the Lanham Act. SRAM filed a second lawsuit in the same court against RFE Canada on May 16, 2016. That lawsuit alleges patent infringement of U.S. Patent number 9,291,250 ("250 Patent"). The Company believes the lawsuits are without merit and intends to vigorously defend itself. As such, the Company has filed, before the U. S. Patent and Trademark Appeals Board ("PTAB"), for Interparties Reviews ("IPR") of the '027 Patent and separately the same for the '250 Patent. In April 2018, the PTAB issued opinions in the '027 Patent petition cases stating that the Company has not shown the claims of the '027 Patent to be obvious. Regarding the PTAB '027 opinions, the Company has filed a Notice of Appeal to the Court of Appeals for the Federal Circuit. The IPR for the '250 patent is pending in the PTAB and the PTAB has stayed the ex-parte re-exam of the '250 patent.

In a separate action the Company filed a lawsuit on January 29, 2016 in the U.S. District Court, Northern District of California against SRAM. That lawsuit alleges SRAM's infringement of two separate Company owned patents, specifically U.S. Patent numbers 6,135,434 and 6,557,674. A second lawsuit was filed by the Company on July 1, 2016 in the U.S. District Court, Northern District of California against SRAM alleging infringement of the Company's U.S. Patent numbers 8,226,172 and 8,974,009. These lawsuits have been moved to U.S. District Court, District of Colorado and are otherwise proceeding. The stay of the SRAM lawsuits against the Company have been lifted by the U.S. District Court, Northern District of Illinois. The Company filed and SRAM filed lawsuits are now moving forward as scheduled by the courts.

Due to the inherent uncertainties of litigation, the Company is not able to predict either the outcome or a range of reasonably possible losses, if any, at this time. Accordingly, no amounts have been recorded in the consolidated financial statements for the settlement of these matters. Were an unfavorable ruling to occur, or if factors indicate that a loss is probable and reasonably estimable, the Company's business, financial condition or results of operations could be materially and adversely affected.

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

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ITEM 1A. RISK FACTORS

Our business, financial condition, operating results and prospects could be materially and adversely affected by various risks and uncertainties that are described herein. In addition to the risks and uncertainties discussed elsewhere in this Quarterly Report on Form 10-Q, you should carefully consider the risks and uncertainties described below. If any of these risks actually occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline.

Risks related to our business

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

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

Product development requires significant financial, technological and other resources. While we expended approximately \$20.2 million, \$18.5 million and \$17.0 million for our research and development efforts in 2017, 2016 and 2015, respectively, there can be no assurance that this level of investment in research and development will be sufficient in the future to maintain our competitive advantage in product innovation, which could cause our business, financial condition or results of operations to suffer.

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

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

The ride dynamics industry is highly competitive. We compete with a number of other manufacturers that produce and sell ride dynamics products to OEMs and aftermarket dealers and distributors, including OEMs that produce their own lines of products for their own use. Our continued success depends on our ability to continue to compete effectively against our competitors, some of which have significantly greater financial, marketing and other resources than we have. Also, several of our competitors offer broader product lines to OEMs, which they may sell in connection with suspension products as part of a package offering. In the future, our competitors may be able to maintain and grow brand strength and market share more effectively or quickly than we do by anticipating the course of market developments more accurately than we do, developing products that are superior to our products, creating manufacturing or distribution capabilities that are superior to ours, producing similar products at a lower cost than we can or adapting more quickly than we do to new technologies or evolving regulatory, industry or customer requirements, among other possibilities. In addition, we may encounter increased competition if our current competitors broaden their product offerings by beginning to produce additional types of ride dynamics products or

through competitor consolidations. We could also face competition from well-capitalized entrants into the performance suspension and ride dynamics product market, as well as aggressive pricing tactics by other manufacturers trying to gain market share. As a result, our products may not be able to compete successfully with our competitors' products, which could negatively affect our business, financial condition or results of operations.

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

Our business depends substantially on global economic and market conditions. In particular, we believe that currently a significant majority of the end users of our products live in the United States and countries in Europe. These areas are either in the process of recovering from recession or, in some cases, are still struggling with recession, disruption in banking and/or financial systems, economic weakness and uncertainty. In addition, our products are recreational in nature and are generally discretionary purchases by consumers. Consumers are usually more willing to make discretionary purchases during periods of favorable general economic conditions and high consumer confidence. Discretionary spending may also be affected by many other factors, including interest rates, the availability of consumer credit, taxes and consumer confidence in future economic conditions. During periods of unfavorable economic conditions, or periods when other negative market factors exist, consumer discretionary spending is typically reduced, which in turn could reduce our product sales and have a negative effect on our business, financial condition or results of operations.

There could also be a number of secondary effects resulting from an economic downturn, such as insolvency of our suppliers resulting in product delays, an inability of our OEM and distributor and dealer customers to obtain credit to finance purchases of our products, customers delaying payment to us for the purchase of our products due to financial hardship or an increase in bad debt expense. Any of these effects could negatively affect our business, financial condition or results of operations.

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

Our products are selected by both OEMs and dealers and distributors in part because of the premium brand reputation we hold with them and our end users. Therefore, our success depends on our ability to maintain and build the image of our brands. We have focused on building our brands through producing products or acquiring businesses that produce products that we believe are innovative, high in performance and highly reliable. In addition, our brands benefit from our strong relationships with our OEM customers and dealers and distributors and through marketing programs aimed at bike and powered vehicle enthusiasts in various media and other channels. For example, we sponsor a number of professional athletes and professional race teams. In order to continue to enhance our brand image, we will need to maintain our position in the suspension and ride dynamics products industry and continue to provide high quality products and services. Also, we will need to continue to invest in sponsorships, marketing and public relations. There can be no assurance, however, that we will be able to maintain or enhance the strength of our brands in the future. Our brands could be adversely impacted by, among other things:

- failure to develop new products that are innovative, performance and reliable;
- internal product quality control issues;
- product quality issues on the bikes and powered vehicles on which our products are installed;
- product recalls;
- high profile component failures (such as a component failure during a race on a mountain bike ridden by an athlete that we sponsor);
- negative publicity regarding our sponsored athletes;
- high profile injury or death 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.

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

During 2017, approximately 52% of our sales were generated from the sale of bike products. Part of our success has been attributable to the growth in the high-end bike industry, including increases in average retail sales prices, as better-performing product designs and technologies have been incorporated into these products. If the popularity of high-end or premium-priced bikes does not increase or declines, the number of bike enthusiasts seeking such bikes or premium-priced suspension products, wheels, cranks and other specialty components for their bikes does not increase or declines, or the average price point of these bikes declines, we may fail to achieve future growth or our sales could decrease, and our business, financial condition or results of operations could be negatively affected. In addition, if current bike enthusiasts stop purchasing our products due to changes in preferences, we may fail to achieve future growth or our sales could be decreased, and our business, financial condition or results of operations could be negatively affected.

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

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

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

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

During 2017, we completed the process of moving all of the manufacturing of our bike suspension component products to our facility in Taichung, Taiwan. In connection with this move, we are utilizing, and expect to continue to utilize, suppliers who are located closer to our facility in Taichung, Taiwan for a number of materials and components. With the transition of all of our bike suspension component manufacturing to Taichung, Taiwan, we have converted the Watsonville manufacturing facility to be a powered vehicle suspension products manufacturing location exclusively. In the future, we may move additional manufacturing operations as we re-balance existing facilities or expand to new manufacturing locations. As a result, we have incurred, and may continue to incur, costs associated with some duplication of facilities, equipment and personnel, the amount of which could vary materially from our projections. In addition, we could encounter unforeseen difficulties resulting from the distance and time zone differences between our various facilities.

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

to our customers could lead to increased returns or cancellations, expose us to damage claims from our customers or damage our brand and, in turn, negatively affect our business, financial condition or results of operations.

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

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

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

We are heavily dependent upon the contributions, talent and leadership of our senior management team, particularly our Chief Executive Officer, Larry L. Enterline. We do not have a "key person" life insurance policy on Mr. Enterline or any other key employees. We believe that the top 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.

We grew our sales from approximately \$403.1 million in 2016 to approximately \$475.6 million in 2017. This growth rate may be unsustainable. Our future growth will depend upon various factors, including the strength of the image of our brands, our ability to continue to produce innovative suspension and ride dynamics products, consumer acceptance of our products, competitive conditions in the marketplace, our ability to make strategic acquisitions, the growth in emerging markets for products requiring high-end suspension products and, in general, the continued growth of the high-end bike and powered vehicle markets into which we sell our products. Our beliefs regarding the future growth of markets for high-end suspension products are based largely on qualitative judgments and limited sources and may not be reliable. If we are unable to sustain our past growth or successfully implement our growth strategy, our business, financial condition or results of operations could be negatively affected.

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

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

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

future, the value of our brands and our sales could decline.

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

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

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

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

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

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

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

Sales attributable to our five largest OEM customers, which can vary from year to year, collectively accounted for approximately 32%, 30% and 32% of our sales in fiscal years 2017, 2016 and 2015, respectively. The loss of all or a substantial portion of our sales to any of these OEM customers, whether through the temporary or permanent discontinuation of their products which incorporate our products or otherwise, or the loss of market share by these customers could have a material adverse impact on our business, financial condition or results of operations.

In particular, sales to Giant, an OEM and contract manufacturer used by certain of our bike OEM customers, accounted for approximately 10%, 14% and 12% of our sales in 2017, 2016 and 2015, 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.

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Currency exchange rate fluctuations could impact gross margins and expenses.

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

With a majority of our manufacturing operations for our bike products occurring in Taiwan, a percentage of our sales and expenses are denominated in the New Taiwan Dollar. Should the New Taiwan Dollar appreciate against the U.S. Dollar, this could have the effect of decreasing our sales, increasing our expenses, and decreasing our profitability.

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

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

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

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

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

U.S. policies related to global trade and tariffs could have a material adverse effect on our results of operations.

The current domestic and international political environment, including existing and potential changes to U.S. policies related to global trade and tariffs, have resulted in uncertainty surrounding the future state of the global economy. In 2018, the U.S. imposed tariffs of 25 percent on steel and 10 percent on aluminum as well as 25 percent tariffs on certain imports from China. Additionally, the U.S. Government has signaled there may be further action on potential tariffs that could be imposed at a later date. While we have limited exposure to implemented tariffs at this time, any expansion in the types of tariffs implemented has the potential to negatively impact our supply chain costs as well as the operating performance of our customers, thus negatively affecting our sales, gross margin and operating performance. Additionally, there is a risk that the U.S. tariffs on imports are met with tariffs on U.S. produced exports and that a broader trade conflict could ensue. This has the potential to significantly impact global trade and economic conditions in many of the regions where we do business and have a material adverse effect on our results of

operations.

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

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

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

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

If we are unable to enforce our intellectual property rights, our reputation and sales could be adversely affected. Intellectual property is an important component of our business. We patent our proprietary technologies related to vehicle suspension and other products in the U.S. and various foreign patent offices. Additionally, we have registered or have applied for trademarks and service marks with the United States Patent and Trademark Office and a number of foreign countries, including the marks FOX[®], FOX RACING SHOX[®], RACE FACE[®] and REDEFINE YOUR LIMITS[®], to be utilized with certain goods and services. When appropriate, we may from time to time assert our rights against those who infringe on our patents, trademarks, trade dress, or other intellectual property. We may not, however, be successful in enforcing our patents or asserting trademark, trade name or trade dress protection with respect to our brand names and our product designs, and third parties may seek to oppose or challenge our patents or trademark registrations. Further, these legal efforts may not be successful in reducing sales of suspension products by those infringing. In addition, our pending patent applications may not result in the issuance of patents, and even issued patents may be contested, circumvented or invalidated and may not provide us with proprietary protection or competitive advantages. If our efforts to develop and enforce our intellectual property are unsuccessful, or if a third party misappropriates our rights, this may adversely affect our business, financial condition or results of operations. Additionally, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States, and it may be more difficult for us to successfully challenge the use of our proprietary rights by other parties in these countries. Furthermore, other competitors may be able to successfully produce products which imitate certain of our products without infringing upon any of our patents, trademarks or trade dress. The failure to prevent or limit infringements and imitations could have a permanent negative impact on the pricing of our products or reduce our product sales and product margins, even if we are ultimately successful in limiting the distribution of a product that infringes our rights, which in turn may affect our business, financial condition or results of operations.

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

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

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

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

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

Unless otherwise required by law, we generally provide a limited warranty for our products for a one or two-year period beginning on: (i) in the case of OEM sales, the date the bike or powered vehicle is purchased from an authorized OEM where our product is incorporated as original equipment on the purchased bike or powered vehicle; or (ii) in the case of aftermarket sales, the date the product is originally purchased from an authorized dealer. From time to time, our customers may negotiate for longer or different warranty coverage. In the ordinary course of business, we incur warranty costs and reserve against such costs in our financial statements. However, there is a risk that we could become aware of an underperforming product and be forced to make adjustments to our warranty reserves or incur costs in excess of these reserves which could adversely affect our results of operations.

Our products and items where our product is incorporated as original equipment on the purchased item are subject to regulation by various agencies, including the National Highway Traffic Safety Administration ("NHTSA"), the U.S. Consumer Product Safety Commission ("CPSC") and similar state and international regulatory authorities. We have had in the past, and may have in the future, recalls (both voluntary and involuntary) of our products or of items that incorporate our products. For example, in October 2016, we initiated a voluntary recall of certain bicycle Float X2 shock absorber products. Most recently, in May 2017, we announced a voluntary recall of approximately 2,460 of FOX's Harley Davidson specific aftermarket motorcycle shock absorbers. In addition to the direct costs related to these or other recalls, in the future, we may be forced to undertake such recalls which could adversely affect our aftermarket and OEM sales if we or our OEM customer do not have a replacement for such recalled product ready in a timely manner. Such recall events could also adversely affect our brand image and have a negative effect on our relationships with our OEMs, sponsored athletes and race teams, or otherwise have a negative effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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

In the future, we and our subsidiaries may be able to incur substantial additional debt from further amendments to the Second Amended and Restated Credit Facility, additional lending sources subject to the restrictions contained in the Second Amended and Restated Credit Facility, or as a result of certain debt instruments similar to those described in our Shelf Registration Statement on Form S-3, which was filed with the SEC in March 2015, and expired in April 2018.

As of June 29, 2018, we had \$65.9 million of indebtedness and \$90.0 million in revolving credit available to borrow under the Second Amended and Restated Credit Facility. Our ability to borrow under the Second Amended and Restated Credit Facility fluctuates from time to time due to, among other factors, our borrowings under the facility. Our indebtedness could be costly or have adverse consequences, such as:

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

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

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

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

As of June 29, 2018, we had \$65.9 million of indebtedness, bearing interest at a variable rate, outstanding under the Second Amended and Restated Credit Facility. Recent interest rates in the United States have been at historically low levels, and any increase in these rates would increase our interest expense and reduce our funds available for operations and other purposes. Although from time to time we may enter into agreements to hedge a portion of our interest rate exposure, these agreements may be costly and may not protect against all interest rate fluctuations.

Accordingly, we may experience material increases in our interest expense as a result of increases in interest rate levels generally. Based on the \$65.9 million of variable interest rate indebtedness that was outstanding as of June 29, 2018, a hypothetical 100 basis point increase or decrease in the interest rate would have resulted in an approximately \$0.7 million change to our interest expense for the three months ended June 29, 2018.

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

Recently enacted U.S. tax legislation has significantly changed the U.S. federal income taxation of U.S. corporations by reducing the U.S. corporate income tax rate, adopting elements of a territorial tax system, imposing a one-time transition tax (or "deemed repatriation tax") on all undistributed earnings and profits of certain U.S. owned foreign corporations, revising the rules governing net operating losses and the rules governing foreign tax credits, repealing the performance-based compensation exception to the \$1 million deduction limit on executive compensation and expanding the scope of employees to whom the limit applies, eliminating the deductibility of certain fringe benefits, permitting immediate expensing of certain capital expenditures, limiting interest deductions, modifying the tax treatment of like kind exchanges, and introducing new anti-base erosion provisions. Many of these changes were effective immediately upon the passage of the legislation, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementation of regulations by the Treasury and IRS, any of which could lessen or increase certain adverse impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities, or how the changes will be viewed by foreign governments.

Our analysis and interpretation of this legislation is preliminary and ongoing, and the financial statement impact of the elements of tax reform is incomplete. We asserted permanent reinvestment of the earnings of certain of our foreign subsidiaries in 2016 and 2017 and discontinued this assertion as a result of the December 2017 changes in legislation. As a result, we have identified the deemed repatriation tax, the accrual of state income and foreign withholding taxes on unremitted earnings, and certain other changes to U.S. taxation of amounts earned abroad as having an impact on our financial statements. Additionally, the reduction in the U.S. corporate tax rate, the revision of rules governing foreign tax credits, and changes in the rules regarding the sourcing of income are expected to have an impact on our ability to utilize our existing and future foreign tax credits, and, as such, we have provided a partial valuation allowance on these tax assets. A full valuation allowance was avoided primarily due to the decision to implement a prudent and feasible tax planning strategy to restructure business functions such that both U.S. taxable income and foreign sourced income will increase in future years, allowing a portion of the foreign tax credits to be utilized. However, there can be no assurance that we will be able to implement such a plan. Our potential inability to utilize the net book value of our foreign tax credits could have a material impact on our tax provision, net income and cash flows.

There may be other material adverse effects resulting from the legislation that we have not yet identified. While some of the changes made by the tax legislation may adversely affect the Company in one or more reporting periods and prospectively, other changes may be beneficial. We continue to work with our tax advisors to determine the full impact that the recent tax legislation as a whole will have on us.

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

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

As of June 29, 2018, we employed approximately 2,000 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.

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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 CPSC, the NHTSA, and the European Committee for Standardization ("CEN"). Failure to comply with the voluntary requirements of such organizations could result in the loss of certain customer contracts, which could have an adverse effect on our business, financial condition or results of operations.

Unpredictability in the adoption, implementation and enforcement of increasingly stringent emission standards by multiple jurisdictions could adversely affect our business.

Certain of our products are subject to extensive statutory and regulatory requirements governing emission and noise, including standards imposed by the EPA, the EU, state regulatory agencies (such as the CARB) and other regulatory agencies around the world. We have made, and continue to make, capital and research expenditures to ensure our certain of our products comply with these emission standards. Developing products to meet numerous changing government regulatory requirements, with different implementation timelines and emission requirements, makes developing products efficiently for multiple markets complicated and could result in additional costs that may be difficult to recover in certain markets. In some cases, we may be required to develop new products to comply with new regulations, particularly those relating to air emissions. The successful development and introduction of new and enhanced products in order to comply with new regulatory requirements are subject to other risks, such as delays in product development, cost over-runs and unanticipated technical and manufacturing difficulties.

In addition to these risks, the nature and timing of government implementation and enforcement of increasingly stringent emission standards is unpredictable. Any delays in implementation or enforcement could result in the products we developed or modified to comply with these standards becoming unnecessary or becoming necessary later than expected, which in turn could delay, diminish or eliminate the expected return and may adversely affect our business.

Increasing focus on environmental, social and governance responsibility, may impose additional costs on us and expose us to new risks

Regulators, stockholders and other interested constituencies have focused increasingly on the environmental, social and governance practices of companies. Our customers may require us to implement environmental, social or governance responsibility procedures or standards before they will continue to do business with us. Additionally, we may face reputational challenges in the event our environmental, social or governance responsibility procedures or standards do not meet the standards set by certain constituencies. The occurrence of any of the foregoing could have a material adverse effect on the price of our shares and our business, financial condition and 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.

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

We believe that our operations are in substantial compliance with applicable environmental laws and regulations. However, additional environmental issues relating to presently known or unknown matters could give rise to currently unanticipated investigation, assessment or expenditures. Compliance with more stringent laws or regulations, as well as different interpretations of existing laws, more vigorous enforcement by regulators or unanticipated events, could require additional expenditures that may materially affect our business, financial condition or results of operations. Federal, state, local, foreign and international laws and regulations relating to land-use, and noise and air pollution may have a negative impact on our future sales and results of operations.

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

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

Gasoline or diesel fuel is required for the operation of the powered vehicles that use our products. There can be no assurance that the supply of these fuels will continue uninterrupted, that rationing will not be imposed or that the price of or tax on these petroleum products will not significantly increase in the future. Future shortages of gasoline and diesel fuel and substantial increases in the price of fuel could have a material adverse effect on our powered vehicle product category, which could have a negative effect on our business, financial condition or results of operations. We do not control our suppliers, OEMs, other customers or partners, 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, OEMs, other customers or partners, or their labor, environmental or other practices. A violation of labor, environmental, intellectual property or other laws by our suppliers, OEMs, other customers or partners, 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 partners if these violations or failures were to occur. We do not inspect or audit compliance of our suppliers, OEMs, customers or partners with these laws or practices, and we do not require our suppliers, OEMs, customers or partners such 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.

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

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

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

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

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

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

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

During 2017, we completed the process of moving all of the manufacturing of our bike suspension component products to our facility in Taichung, Taiwan. In connection with this move, we are utilizing, and expect to continue to utilize, suppliers who are located closer to our facility in Taichung, Taiwan for a number of materials and components. With the transition of all of our bike suspension component manufacturing to Taichung, Taiwan, we have converted the Watsonville manufacturing facility to be a powered vehicle suspension products manufacturing location exclusively. No assurances can be given that consumers will not be adversely influenced by the fact that such products will no longer be manufactured in the United States or that consumers and OEM customers may not otherwise perceive that the quality of our products is lowered as a result of the fact that the majority are manufactured overseas. Such perceptions could adversely impact our business, financial condition or results of operations.

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We may incur higher employee costs in the future.

We are subject to government mandated wage and benefit laws and regulations in many varying countries and jurisdictions. For example, the State of California, where a substantial number of our employees are located, has passed legislation designed to raise the statewide minimum wage gradually until it reaches \$15.00 per hour in 2022. Under the new California law, signed on April 4, 2016, the minimum wage increased to \$11.00 per hour effective January 1, 2018, and will gradually increase each calendar year through January 1, 2022, when it will reach \$15.00 per hour. As we expand internationally, we are also subject to applicable laws in each such jurisdiction. Increases in the mandated wage in any or all of the jurisdictions in which we operate could subject us to increased costs, thereby impacting our business, financial condition, or results of operations.

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

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

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

• earthquakes, fire, flood, hurricane and other natural disasters;

• power loss, computer systems failure, internet and telecommunications or data network failure; and

• hackers, computer viruses, software bugs or glitches.

Any damage or significant disruption in the operation of such systems or the failure of our information systems to perform as expected could disrupt our operations, reduce our efficiency, delay our fulfillment of customer orders or require significant unanticipated expenditures to correct, and thereby have a negative effect on our business, financial condition or results of operations.

In May 2015, we began the process of implementing a global enterprise resource planning system ("ERP"). The pilot phase of the new ERP was completed in fiscal year 2016 and a second phase was completed in May, 2018. Remaining operations will be phased in over the next few fiscal years. ERP implementations are complex and time consuming projects that involve substantial expenditures on system software and implementation activities. ERP implementations also require transformation of business and financial processes in order to reap the benefits of the ERP system. Any such transformation involves risks inherent in the conversion to a new computer system, including loss of information and potential disruption to our normal operations. Our business and results of operations may be adversely affected if we experience operating problems or cost overruns during the ERP implementation process, or if the ERP system and the associated process changes do not give rise to the benefits that we expect.

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

We could be negatively impacted by cybersecurity attacks.

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

Additionally, security breaches could result in a violation of applicable U.S. and international privacy and other laws and subject us to governmental investigations and proceedings, which could result in our exposure to material civil or criminal liability. For example, the European Union adopted a new regulation that became effective in May 2018, called the General Data Protection Regulation (“GDPR”). GDPR requires companies to meet new requirements regarding the handling of personal data, including its use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet GDPR requirements could result in financial penalties.

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

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

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

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

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

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

- the timing of new product releases or other significant announcements by us or our competitors;
- new advertising initiatives;
- fluctuations in raw materials and component costs; and
- changes in our practices with respect to building inventory.

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

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

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

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Failure of our internal control over financial reporting could adversely affect our business and financial results. Our management is responsible for establishing and maintaining effective internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. The identification of a material weakness could indicate a lack of controls adequate to generate accurate financial statements that, in turn, could cause a loss of investor confidence and decline in the market price of our common stock. We cannot assure you that we will be able to timely remediate any material weaknesses that may be identified in future periods or maintain all of the controls necessary for continued compliance. Likewise, we cannot assure you that we will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

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 \$53.95 and \$13.35 per share and such volatility may continue in the future. Factors affecting the trading price of our common stock could include:

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

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

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

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

Our Amended and Restated Certificate of Incorporation authorizes us to issue 90,000,000 shares of common stock, 37,802,327 of which shares were outstanding as of June 29, 2018. In the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisitions, registration statements or otherwise.

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

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

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

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

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

Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws (together, our "Charter Documents"), as well as Delaware law, contain provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Among other things, these provisions: authorize the issuance of "blank check" preferred stock that could be issued by our Board of Directors to discourage a takeover attempt;

establish a classified Board of Directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;

require that directors be removed from office only for cause;

provide that vacancies on our Board of Directors, including newly created directorships, may be filled only by a majority vote of directors then in office;

provide that no action be taken by stockholders by written consent;

provide that special meetings of our stockholders may be called only by our Board of Directors, our Chairperson of the Board of Directors, our Lead Director (if we do not have a Chairperson or the Chairperson is disabled), our Chief Executive Officer or our President (in the absence of a Chief Executive Officer);

require supermajority stockholder voting for our stockholders to effect certain amendments to our Charter Documents; and

establish advance notice requirements for nominations for elections to our Board of Directors or for proposing other matters that can be acted upon by stockholders at stockholder meetings.

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

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

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

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

The following table contains the details related to the repurchase of common stock based on the date of trade during the quarter ended June 29, 2018:

Period	Total Number of Shares Purchased (1)	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
3/31 - 5/4	11,799	\$ 34.96	—
5/5 - 6/1	31,765	\$ 35.35	—
6/2 - 6/29	25,321	\$ 46.55	—
Total	68,885	\$ 39.40	—

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference		Filed Herewith
		FormFile No.	Filing Date	
<u>3.1</u>	Amended and Restated Certificate of Incorporation	10-Q 001-36040	September 19, 2013	
<u>3.2</u>	Amended and Restated Bylaws	10-Q 001-36040	September 19, 2013	
<u>10.1</u>	Amendment dated June 26, 2018 to Employment Agreement dated January 26, 2015 between Fox Factory, Inc. and Thomas Wittenschlaeger	8-K 001-36040	June 26, 2018	
<u>31.1</u>	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended			X
<u>31.2</u>	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended			X
<u>32.1*</u>	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended			X
101.INS	XBRL Instance Document			X
101.SCH	XBRL Taxonomy Extension Schema			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase			X
101.LAB	XBRL Taxonomy Extension Label Linkbase			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase			X

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.

