

FOX FACTORY HOLDING CORP

Form 10-K/A

March 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 29, 2017

OR

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

Commission File Number: 001-36040

Fox Factory Holding Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

26-1647258

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

915 Disc Drive

Scotts Valley, CA

(Address of Principal Executive Offices)

(831) 274-6500

(Registrant's Telephone Number, Including Area Code)

95066

(Zip Code)

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

Title of Each Class	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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

None

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

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

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

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

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

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

Based upon the closing price of the registrant's common stock on the NASDAQ Global Select Market on June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter), the approximate aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$1,245,969,518. As of February 21, 2018, there were 37,608,532 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

---

Portions of the registrant's Definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

#### EXPLANATORY NOTE

Fox Factory Holding Corp. (the "Company") is filing this Amendment No. 1 on Form 10-K/A ("Amendment 1") to its Annual Report on Form 10-K for the year ended December 29, 2017, as filed with the Securities and Exchange Commission on February 27, 2018 (the "Original Filing") solely to file an amended Item 8 to fix a typographical error by correcting the office location in the "Report of Independent Registered Public Accounting Firm" issued by Grant Thornton LLP ("Grant Thornton") with respect to the Company's financial statements (the "Grant Thornton Financial Statements Opinion").

The change to the filed copy of the Grant Thornton Financial Statements Opinion does not affect Grant Thornton's unqualified opinion on the Company's consolidated financial statements included in the Original Filing and this Amendment 1, or Grant Thornton's unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 29, 2017.

Item 15 has been included herein to reflect new Section 302 and Section 906 certifications. No other changes were made to the Original Filing. This Amendment 1 does not affect the XBRL data in the Original Filing. This Amendment 1 speaks as of the date of the Original Filing, and does not reflect events that may have occurred subsequent to the date of the Original Filing.

---

Fox Factory Holding Corp.  
Table of Contents

	Page
PART II.	
Item 8 Financial Statements and Supplementary Data	<u>5</u>
Item 9A Controls and Procedures	<u>6</u>
PART	
IV.	
Item 15 Exhibits, Financial Statement Schedules	<u>7</u>
Signatures	<u>12</u>
Financial Statements	
Management's Report on Internal Control Over Financial Reporting	<u>13</u>
Reports of Independent Registered Public Accounting Firm	<u>14</u>
Consolidated Balance Sheets as of December 29, 2017 and December 30, 2016	<u>17</u>
Consolidated Statements of Income for the years ended December 29, 2017, December 30, 2016 and December 31, 2015	<u>19</u>
Consolidated Statements of Comprehensive Income for the years ended December 29, 2017, December 30, 2016 and December 31, 2015	<u>19</u>
Consolidated Statements of Stockholders' Equity for the years ended December 29, 2017, December 30, 2016 and December 31, 2015	<u>20</u>
Consolidated Statements of Cash Flows for the years ended December 29, 2017, December 30, 2016 and December 31, 2015	<u>21</u>
<u>Notes to</u> Consolidated Financial Statements	<u>23</u>

---

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and the report of our independent registered public accounting firm are included in Part IV. "Report of Independent Registered Public Accounting Firm" of this Annual Report on Form 10-K. The index to these reports and our financial statements is included in Item 15. "Exhibits, Financial Statement Schedules" below.

5

---

## ITEM 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, 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 December 29, 2017. Based on the evaluation of our disclosure controls and procedures as of December 29, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

### Management's Report on Internal Control Over Financial Reporting

The Management's Report on Internal Control Over Financial Reporting is contained in Part IV. "Management's Report on Internal Control Over Financial Reporting" of this Annual Report on Form 10-K and is incorporated herein by reference.

### Attestation Report of Independent Registered Public Accounting Firm

Grant Thornton, LLP, the independent registered public accounting firm who audited the Company's consolidated financial statements, has issued an attestation report on the Company's internal control over financial reporting. A report of independent registered public accounting firm is contained in Part IV. "Report of Independent Registered Public Accounting Firm" of this Annual Report on Form 10-K.

### 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 three months ended December 29, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal 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.



ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

Management's Report on Internal Control Over Financial Reporting	<u>13</u>
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>14</u>
Consolidated Balance Sheets at December 29, 2017 and December 30, 2016	<u>17</u>
Consolidated Statements of Income for the years ended December 29, 2017, December 30, 2016 and December 31, 2015	<u>18</u>
Consolidated Statements of Comprehensive Income for the years ended December 29, 2017, December 30, 2016 and December 31, 2015	<u>19</u>
Consolidated Statements of Stockholders' Equity for the years ended December 29, 2017, December 30, 2016 and December 31, 2015	<u>20</u>
Consolidated Statements of Cash Flows for the years ended December 29, 2017, December 30, 2016 and December 31, 2015	<u>21</u>
Notes to Consolidated Financial Statements	<u>23</u>
(b) Exhibits	
See " <u>Index to Exhibits</u> "	<u>8</u>

Edgar Filing: FOX FACTORY HOLDING CORP - Form 10-K/A

Index to Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File 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>4.1</u>	Form of Common Stock Certificate.	S-1	333-189841	July 8, 2013	
<u>4.3</u>	Form of Indenture dated March 31, 2015	S-3	333-203146	March 31, 2015	
<u>10.1</u> †	Employment Agreement, dated July 22, 2013, by and between Fox Factory Holding Corp. and Larry L. Enterline.	S-1	333-189841	July 25, 2013	
<u>10.2</u> †	Employment Agreement, dated July 22, 2013, by and between Fox Factory Holding Corp. and Zvi Glasman.	S-1	333-189841	July 25, 2013	
<u>10.3</u> †	Employment Agreement, dated February 20, 2014, by and between Fox Factory Holding Corp. and Bill Katherman.	8-K/A	001-36040	June 17, 2014	
<u>10.4</u> †	Employment Agreement, dated January 26, 2015, by and between Fox Factory Holding Corp. and Tom Wittenschlaeger.	10-Q	001-36040	May 4, 2016	
<u>10.5</u> †	Employment Agreement, dated August 29, 2013, by and between Fox Factory Holding Corp. and Wes Allinger.	10-Q	001-36040	May 4, 2016	
<u>10.6</u> †	Amendment, dated May 2, 2016, to the Employment Agreement, dated July 22, 2013, by and between Fox Factory Holding Corp. and Larry Enterline.	10-Q	001-36040	August 3, 2016	
<u>10.7</u> †	Amendment, dated May 2, 2016, to the Employment Agreement, dated July 22, 2013, by and between Fox Factory Holding Corp. and Zvi Glasman.	10-Q	001-36040	August 3, 2016	
<u>10.8</u> †	Amendment, dated May 2, 2016, to the Employment Agreement, dated February 20, 2014, by and between Fox Factory Holding Corp. and Bill Katherman.	10-Q	001-36040	August 3, 2016	
<u>10.9</u> †	Amendment, dated May 2, 2016, to the Employment Agreement, dated August 29, 2013, by and between Fox Factory Holding Corp. and Wes Allinger.	10-Q	001-36040	August 3, 2016	
<u>10.10</u> †	Amendment, dated May 2, 2016, to the Employment Agreement, dated January 26, 2015, by and between Fox Factory Holding Corp. and Tom Wittenschlaeger.	10-Q	001-36040	August 3, 2016	
<u>10.11</u> †	Amendment, dated October 19, 2016, to the Employment Agreement, dated February 20, 2014, by and between Fox Factory Holding Corp. and Bill Katherman.	8-K	001-36040	October 25, 2016	
<u>10.12</u> †	Information Sharing and Cooperation Agreement, dated August 13, 2013, by and between Compass Diversified Holdings, on its behalf and on behalf of its wholly-owned subsidiary, Compass Group Diversified Holdings LLC, and Fox Factory Holding Corp., on its behalf and on behalf of its	10-Q	001-36040	November 6, 2013	

wholly-owned subsidiary, Fox Factory, Inc.

10.13† Non-Employee Director Compensation Policy.

S-1 333-189841 July 25, 2013

8

---

Edgar Filing: FOX FACTORY HOLDING CORP - Form 10-K/A

<u>10.14</u> †	Form of Indemnification Agreement between Fox Factory Holding Corp. and certain of its directors and officers.	S-1	333-189841	July 8, 2013
<u>10.15</u> †	Form of Indemnification Agreement between Fox Factory Holding Corp. and Elias Sabo and certain advisors.	S-1	333-189841	July 8, 2013
<u>10.16</u> †	2008 Stock Option Plan, as amended.	S-1	333-189841	July 8, 2013
<u>10.17</u> †	2008 Non-Statutory Stock Option Plan, as amended.	S-1	333-189841	August 2, 2013
<u>10.18</u> †	2013 Omnibus Plan as amended by the First Amendment, approved by stockholders on May 4, 2017.	8-K	001-36040	May 8, 2017
<u>10.19</u> †	Form of Restricted Stock Unit Award Agreement under 2013 Omnibus Plan.	S-1	333-189841	July 25, 2013
<u>10.19.1</u> †	Amendment to Restricted Stock Unit Award Agreement, by and between Fox Factory Holding Corp. and Joseph Hagin, dated January 11, 2017.	10-Q	001-36040	May 3, 2017
<u>10.19.2</u> †	Amendment to Restricted Stock Unit Award Agreement, by and between Fox Factory Holding Corp. and Carl Nichols, dated January 4, 2018.	10-K	001-36040	February 27, 2018
<u>10.20</u>	Air Commercial Real Estate Association Standard Industrial / Commercial Single-Tenant Lease – Gross, dated October 31, 2011, by and between Fox Factory, Inc. and Sammie Rae Abitbol, LLC.	S-1	333-189841	July 8, 2013
<u>10.21</u>	Air Commercial Real Estate Association Standard Industrial / Commercial Single-Tenant-Gross, dated March 24, 2010, by and between Fox Factory, Inc. and Scarborough Gilbert Partners, and related addenda.	S-1	333-189841	July 8, 2013
<u>10.22</u>	Lease Agreement, dated July 1, 2003, by and between Fox Factory, Inc. and Robert C. Fox, Jr.	S-1	333-189841	July 8, 2013
<u>10.23</u>	Amendment dated May 2, 2016 to the Lease Agreement, dated July 1, 2003, by and between Fox Factory, Inc. and Robert C. Fox, Jr.	10-Q	001-36040	May 4, 2016
<u>10.24</u>	Sublease, dated January 1, 2012, by and between Fox Factory, Inc. and Robert C. Fox, Jr., and related addendum.	S-1	333-189841	July 8, 2013
<u>10.25</u>	Air Commercial Real Estate Association Standard Industrial/Commercial Multi-Tenant Lease - Net, dated April 19, 2012, by and between Fox Factory, Inc. and North Johnson Vernon Property, LLC, and related addendum.	S-1	333-189841	July 8, 2013
<u>10.26</u>	Asset Purchase Agreement, by and between ST USA Holding Corp. and Sport Truck USA, Inc., dated March 5, 2014.	8-K	001-36040	March 6, 2014
<u>10.27</u>	Asset Purchase Agreement, by and between Fox Factory, Inc., RFE Holding (US) Corp., RFE Holding (Canada) Corp., Fox Factory IP Holding Corp., 1021039 B.C. Ltd. and Easton Cycling (USA), Inc. dated December 5, 2014.	8-K	001-36040	December 8, 2014
<u>10.27.1</u>	Side Letter Agreement to the Asset Purchase Agreement, by and between Fox Factory, Inc., RFE Holding (US) Corp., RFE Holding (Canada) Corp., Fox Factory IP Holding Corp., 1021039 B.C. Ltd. and Easton Cycling (USA), Inc., dated December 12, 2014.	8-K	001-36040	December 15, 2014

<u>10.27.2</u>	Second Amendment to Asset Purchase Agreement by and between Fox Factory, Inc., RFE Holding (US) Corp., RFE Holding (Canada) Corp., Fox Factory IP Holding Corp., 1021039 B.C. Ltd. and Easton Cycling (USA), Inc., dated November 13, 2015.	10-Q001-36040	November 16, 2015	
<u>10.28</u>	Asset Purchase and Contribution Agreement by and among FF US Acquisition Corp., FF US Holding Corp., Flagship, Inc. d/b/a Tuscany, and Michael Graber and Jeff Burttschell dated November 30, 2017.	8-K 001-36040	December 4, 2017	
<u>10.29</u>	Stock Repurchase Agreement, by and between Fox Factory Holding Corp. and Compass Group Diversified Holdings, LLC, dated March 9, 2016.	8-K 001-36040	March 15, 2016	
<u>10.30</u>	Second Amended and Restated Revolving Credit and Term Loan Agreement, dated May 11, 2016.	8-K 001-36040	May 16, 2016	
<u>10.30.1</u>	First Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement, dated August 11, 2016.	10-Q001-36040	November 2, 2016	
<u>10.30.2</u>	Second Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement dated June 12, 2017.	10-Q001-36040	August 3, 2017	
<u>10.30.3</u>	Third Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2017.	8-K 001-36040	December 4, 2017	
<u>21.1</u>	List of Subsidiaries.	10-K001-36040	February 27, 2018	
<u>23.1</u>	Consent of Independent Registered Public Accounting Firm.	10-K001-36040	February 27, 2018	
<u>24.1</u>	Power of Attorney (contained in signature page to this Annual Report on Form 10-K).	10-K001-36040	February 27, 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 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 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.			X
<u>32.1*</u>	Certification of Principal Executive 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
<u>32.2*</u>	Certification of 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

† Management contract or compensatory plan.

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: \* Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Annual Report on

Form 10-K 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, except to the extent that the registrant specifically incorporates it by reference.

**SIGNATURES**

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

FOX FACTORY HOLDING CORP.

By: /s/ Zvi Glasman

March 7, 2018      Zvi Glasman, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer & Duly Authorized Signatory)

## Management's Report on Internal Control Over Financial Reporting

The management of Fox is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Fox's internal control over financial reporting is a process designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation and fair presentation of financial statements issued for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). Under the supervision of our management, including our Chief Executive Officer and Chief Financial Officer, Fox conducted an evaluation of the effectiveness of our internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In making its assessment of internal control over financial reporting as of December 29, 2017, management has excluded FF US Acquisition Corp. and FF US Holding Corp. ("Tuscany") which were formed in November 2017 to acquire the business of Flagship Inc.. The Company is currently assessing the control environment of the acquired business. The acquired business represented 2% of the Company's consolidated total assets as of December 29, 2017 and less than 1% of the Company's consolidated net sales for the year ended December 29, 2017.

In making its assessment of internal control over financial reporting, management used criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on the evaluation, our management concluded that its internal control over financial reporting was effective as of December 29, 2017.

Grant Thornton LLP, the independent registered public accounting firm who audited the Company's consolidated financial statements, has issued an attestation report on the Company's internal control over financial reporting, which is included elsewhere in this Annual Report on Form 10-K.

February 27, 2018

/s/ Larry L. Enterline  
Larry L. Enterline

/s/ Zvi Glasman  
Zvi Glasman

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Fox Factory Holding Corp.  
Scotts Valley, California

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Fox Factory Holding Corp. (a Delaware corporation) and subsidiaries (the “Company”) as of December 29, 2017 and December 30, 2016, the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 29, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2017 and December 30, 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 29, 2017, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 27, 2018 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2008.

San Jose, California  
February 27, 2018

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Fox Factory Holding Corp.  
Scotts Valley, California

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Fox Factory Holding Corp. (a Delaware corporation) and subsidiaries (the "Company") as of December 29, 2017, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2017, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended December 29, 2017, and our report dated February 27, 2018 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting ("Management's Report"). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our audit of, and opinion on, the Company's internal control over financial reporting does not include the internal control over financial reporting of FF US Acquisition Corp. and FF US Holding Corp. (collectively, "Tuscany") whose financial statements reflect total assets and sales constituting 2 percent and less than 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 29, 2017. As indicated in Management's Report, certain assets and liabilities of Tuscany were acquired during 2017. Management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Tuscany.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those

policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP  
San Jose, California  
February 27, 2018

16

---

## FOX FACTORY HOLDING CORP.

## Consolidated Balance Sheets

(in thousands, except par value)

	December 29, 2017	December 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$35,947	\$35,280
Accounts receivable (net of allowances of \$676 and \$397 at December 29, 2017 and December 30, 2016, respectively)	61,060	61,617
Inventory	84,841	71,243
Prepays and other current assets	21,100	14,772
Total current assets	202,948	182,912
Property, plant and equipment, net	43,636	32,262
Deferred tax assets	2,669	4,082
Goodwill	88,438	57,781
Intangibles, net	90,044	57,855
Other assets	551	708
Total assets	\$428,286	\$335,600
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$40,813	\$36,240
Accrued expenses	32,608	34,435
Reserve for uncertain tax positions	7,787	7,204
Current portion of long-term debt	5,038	3,625
Current portion of contingent consideration	—	5,532
Total current liabilities	86,246	87,036
Line of credit	35,585	—
Long-term debt, less current portion	58,020	63,058
Deferred rent	645	569
Total liabilities	180,496	150,663
Commitments and contingencies (Refer to <a href="#">Note 8 - Commitments and Contingencies</a> )		
Redeemable non-controlling interest	12,955	—
Stockholders' equity		
Preferred stock, \$0.001 par value — 10,000 authorized and no shares issued or outstanding as of December 29, 2017 and December 30, 2016	—	—
Common stock, \$0.001 par value — 90,000 authorized; 38,497 shares issued and 37,607 outstanding as of December 29, 2017; 37,781 shares issued and 36,891 outstanding as of December 30, 2016	38	37
Additional paid-in capital	112,793	108,049
Treasury stock, at cost; 890 common shares as of December 29, 2017 and December 30, 2016	(13,754 )	(13,754 )
Accumulated other comprehensive loss	(168 )	(2,193 )
Retained earnings	135,926	92,798
Total stockholders' equity	234,835	184,937
Total liabilities, redeemable non-controlling interest and stockholders' equity	\$428,286	\$335,600

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



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

	For the years ended		
	December 29, 2017	December 30, 2016	December 31, 2015
Sales	\$475,633	\$403,077	\$366,798
Cost of sales	321,143	276,689	254,756
Gross profit	154,490	126,388	112,042
Operating expenses:			
Sales and marketing	27,905	25,796	23,182
Research and development	20,178	18,459	17,001
General and administrative	34,933	27,693	21,053
Amortization of purchased intangibles	2,986	2,988	8,525
Fair value adjustment of contingent consideration and acquisition related compensation	1,447	5,911	6,937
Total operating expenses	87,449	80,847	76,698
Income from operations	67,041	45,541	35,344
Other expense, net:			
Interest expense	2,396	2,088	1,549
Other expense (income), net	360	363	(449 )
Other expense, net	2,756	2,451	1,100
Income before income taxes	64,285	43,090	34,244
Provision for income taxes	21,102	7,415	9,290
Net income	43,183	35,675	24,954
Less: net income attributable to non-controlling interest	(55 )	—	—
Net income attributable to Fox stockholders	\$43,128	\$35,675	\$24,954
Earnings per share:			
Basic	\$1.15	\$0.97	\$0.67
Diluted	\$1.11	\$0.94	\$0.66
Weighted average shares used to compute earnings per share:			
Basic	37,373	36,799	36,989
Diluted	38,738	37,801	37,894

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

FOX FACTORY HOLDING CORP.  
 Consolidated Statements of Comprehensive Income  
 (in thousands)

	For the years ended		
	December 29, 2017	December 30, 2016	December 31, 2015
Net income	\$43,183	\$35,675	\$24,954
Other comprehensive loss			
Foreign currency translation adjustments, net of tax effects	2,025	(240 )	(1,547 )
Other comprehensive income (loss)	2,025	(240 )	(1,547 )
Comprehensive income	45,208	35,435	23,407
Comprehensive income attributable to non-controlling interest	55	—	—
Comprehensive income attributable to Fox stockholders	\$45,153	\$35,435	\$23,407

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

## FOX FACTORY HOLDING CORP.

Consolidated Statements of Stockholders' Equity and Redeemable Non-controlling Interest  
(in thousands, except per share amounts)

	Common Stock		Treasury		Additional paid-in capital	Accumulated other comprehensive (loss) income	Retained earnings	Total stockholders' equity	Redeemable non-controlling interest
	Shares	Amount	Shares	Amount					
Balance-December 31, 2014	37,117	\$ 37	39	\$(571)	\$97,577	\$(406)	\$32,169	\$ 128,806	\$ —
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	298	—	—	—	(163)	—	—	(163)	—
Excess tax benefit from exercise of stock options	—	—	—	—	539	—	—	539	—
Repurchases of common stock	—	—	351	(5,236)	—	—	—	(5,236)	—
Stock-based compensation expense	—	—	—	—	4,907	—	—	4,907	—
Foreign currency translation adjustment	—	—	—	—	—	(1,547)	—	(1,547)	—
Net Income	—	—	—	—	—	—	24,954	24,954	—
Balance- December 31, 2015	37,415	\$ 37	390	\$(5,807)	\$102,860	\$(1,953)	\$57,123	\$ 152,260	\$ —
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	366	—	—	—	(1,034)	—	—	(1,034)	—
Repurchases of common stock	—	—	500	(7,947)	—	—	—	(7,947)	—
Stock-based compensation expense	—	—	—	—	6,223	—	—	6,223	—
Foreign currency translation adjustment	—	—	—	—	—	(240)	—	(240)	—
Net Income	—	—	—	—	—	—	35,675	35,675	—
Balance- December 30, 2016	37,781	\$ 37	890	\$(13,754)	\$108,049	\$(2,193)	\$92,798	\$ 184,937	\$ —
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	716	1	—	—	(3,983)	—	—	(3,982)	—
Acquisition of redeemable non-controlling interest	—	—	—	—	—	—	—	—	12,900

Edgar Filing: FOX FACTORY HOLDING CORP - Form 10-K/A

Stock-based compensation expense	—	—	—	—	8,727	—	—	8,727	—
Foreign currency translation adjustment	—	—	—	—	—	2,025	—	2,025	—
Net Income	—	—	—	—	—	—	43,128	43,128	55
Balance- December 29, 2017	38,497	\$ 38	890	\$(13,754)	\$112,793	\$ (168	) \$135,926	\$ 234,835	\$ 12,955

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

FOX FACTORY HOLDING CORP.  
Consolidated Statements of Cash Flows  
(in thousands)

	For the years ended		
	December 29, 2017	December 30, 2016	December 31, 2015
<b>OPERATING ACTIVITIES:</b>			
Net income	\$43,183	\$35,675	\$24,954
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,280	9,025	13,315
Cost of goods on acquired inventory step up	248	212	812
Stock-based compensation	8,727	6,223	4,907
Excess tax benefit from exercise of stock options	—	—	(539 )
Deferred taxes	(1,160 )	(3,016 )	(4,364 )
Gain on bargain purchase, net of deferred taxes	—	—	(315 )
Change in fair value of contingent consideration	(150 )	(229 )	(748 )
Changes in operating assets and liabilities:			
Accounts receivable	3,554	(17,862 )	(5,435 )
Inventory	(8,322 )	(2,991 )	(11,128 )
Income taxes payable	6,211	1,467	(2,389 )
Prepays and other assets	(9,423 )	(2,089 )	(1,909 )
Accounts payable	2,243	9,610	2,138
Accrued expenses	(7,219 )	2,820	10,723
Net cash provided by operating activities	48,172	38,845	30,022
<b>INVESTING ACTIVITIES:</b>			
Acquisition of businesses	(53,592 )	(198 )	(2,414 )
Purchases of property and equipment	(16,864 )	(12,024 )	(10,894 )
Proceeds from sale of property and equipment	—	—	145
Net cash used in investing activities	(70,456 )	(12,222 )	(13,163 )
<b>FINANCING ACTIVITIES:</b>			
Proceeds from line of credit	42,120	29,500	37,000
Payments on line of credit	(7,000 )	(12,500 )	(35,500 )
Payment of contingent consideration liability	(5,382 )	(6,889 )	(7,854 )
Proceeds from issuance of debt, net of origination fees of \$286	—	9,222	—
Repayment of debt	(3,750 )	(8,522 )	(2,838 )
Cash from stock compensation program, net	(3,981 )	(1,034 )	(163 )
Excess tax benefit from exercise of stock options	—	—	539
Repurchase of common stock	—	(7,947 )	(5,236 )
Net cash provided by (used in) financing activities	22,007	1,830	(14,052 )

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	944	(117	) (75	)
CHANGE IN CASH AND CASH EQUIVALENTS	667	28,336	2,732	
CASH AND CASH EQUIVALENTS—Beginning of year	35,280	6,944	4,212	
CASH AND CASH EQUIVALENTS—End of year	\$35,947	\$35,280	\$6,944	
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the period for:				
Income taxes	\$15,951	\$8,880	\$15,928	
Interest	\$2,012	\$1,786	\$1,338	
Non-cash investing and financing activities:				
Refinancing of line of credit to term debt	\$—	\$18,500	\$—	
Contingent consideration - acquisition of Sport Truck USA, Inc.	\$—	\$—	\$19,035	
Non-controlling interests in acquired business	\$12,900	\$—	\$—	
Debt assumed in acquisition of Tuscany	\$465	\$—	\$—	
The accompanying notes are an integral part of these consolidated financial statements.				

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements

December 29, 2017

(in thousands, except per share amounts)

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 current contract manufacturers, and provides aftermarket products to retailers and distributors.

Throughout this Annual Report on Form 10-K, 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 consolidated financial statements have been prepared in accordance with United States of America ("U.S.") generally accepted accounting principles ("GAAP").

Change in Fiscal Year - In fiscal year 2016, the Company changed from a calendar year ending on December 31 to a 52-53 week fiscal year ending on the Friday nearest to December 31, effective beginning with the first quarter of 2016. Therefore, the financial results of certain future fiscal years and quarters, which will contain 53 and 14 weeks, respectively, will not be exactly comparable to the prior and subsequent fiscal years and quarters, which contain 52 and 13 weeks, respectively. The adoption of a 52-53 week year was not deemed a change in fiscal year for purposes of reporting subject to Rule 13a-10 or 15d-10; hence, no transition reports are required. The Company has made the change in fiscal years on a prospective basis and thus has not revised the Company's previously reported financial statements as of and for the year ended December 31, 2015 or any interim period therein. For 2017 and 2016, the Company's fiscal year ended on December 29, 2017 and December 30, 2016, respectively.

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

Use of Estimates - The preparation of the Company's 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.

Foreign Currency Translation and Transaction - The functional currency of the Company's non-U.S. entities is the local currency of the respective operations. The Company translates the financial statements of its non-U.S. entities into U.S. Dollars each reporting period for purposes of consolidation. Assets and liabilities of the Company's foreign subsidiaries are translated at the period-end currency exchange rates while sales and expenses are translated at the average currency exchange rates in effect for the period. The effects of these translation adjustments are a component of other comprehensive income.

Foreign currency transaction losses (gains) of \$181, \$340, and \$(187) for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively, are included as a component of other income or expense.

Cash and Cash Equivalents - Cash consists of cash maintained in a checking account. All highly liquid investments purchased with an original maturity date of 90 days or less at the date of purchase are considered to be cash equivalents.

Accounts Receivable - Accounts receivable are unsecured customer obligations which generally require payment within various terms from the invoice date. The receivables are stated at the invoice amount. Financing terms vary by customer. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or if unspecified, generally to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that may not be collected. All accounts or portions thereof deemed to be uncollectible or that may require an excessive collection cost are written off to the allowance for doubtful accounts.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

Concentration of Credit Risk - Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist primarily of cash and accounts receivable. The Company held \$17,102 in cash at U.S. subsidiaries and \$18,845 at subsidiaries outside the U.S.. The account balances may significantly exceed the insurance coverage provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company has not experienced any losses in its uninsured accounts.

The Company mitigates its credit risk with respect to accounts receivable by performing ongoing credit evaluations and monitoring of its customers' accounts receivable balances. The following customers accounted for 10% or more of the Company's accounts receivable balance:

	December 29, 2017	December 30, 2016
Customer A	15%	17%
Customer B	14%	14%

During the years ended December 29, 2017, December 30, 2016 and December 31, 2015, Customer A from the table above represented 10%, 14%, and 12% of sales, respectively. No other customers were individually significant in any of these periods.

The Company depends on a limited number of vendors to supply component parts for its products. The Company purchased 35%, 34%, and 37% of its product components for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively, from ten vendors. As of December 29, 2017 and December 30, 2016, amounts due to these vendors represented 23% and 19% of accounts payable, respectively.

Allowance for Doubtful Accounts - The Company records a provision for doubtful accounts based on historical experience and a detailed assessment of the collectability of its accounts receivable. In estimating the allowance for doubtful accounts, management considers, among other factors, the aging of the accounts receivable, historical write-offs, and the credit-worthiness of each customer. If circumstances change, such as higher-than-expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations, the Company's estimate of the recoverability of the amounts due could be reduced by a material amount.

The following table presents the activity in the allowance for doubtful accounts:

	For the years ended		
	2017	2016	2015
Allowance for doubtful accounts:			
Balance, beginning of year	\$397	\$407	\$348
Add: bad debt expense	327	53	75
Less: write-offs, net of recoveries	(48 )	(63 )	(16 )
Balance, end of year	\$676	\$397	\$407

Inventories - Inventories are stated at the lower of actual cost (or standard cost which generally approximates actual costs on a first-in first-out basis) or market value. Cost includes raw materials, as well as direct labor and manufacturing overhead for products we manufacture. Market value is based on current replacement cost for raw materials and on a net realizable value for finished goods. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, for estimated excess, obsolescence or impaired balances.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the balance sheet and any resulting gain or loss is reflected in operations in the period realized.



Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

Leasehold improvements are amortized on a straight-line basis over the terms of the lease, or the useful lives of the assets, whichever is shorter. The value assigned to land associated with buildings we own, is not amortized.

Depreciation and amortization periods for the Company's property and equipment are as follows:

Asset Classification	Estimated useful life
Machine shop equipment	10-15 years
Manufacturing equipment	5-10 years
Information systems, office equipment and furniture	3-5 years
Internal use computer software	10 years
Transportation equipment	5 years
Buildings	39 years

Internal Use Computer Software Costs - Costs incurred to purchase and develop computer software for internal use are capitalized during the application development and implementation stages. These software costs have been for enterprise-level business and finance software that is customized to meet the Company's operational needs. Capitalized costs are included in property and equipment and are amortized on a straight-line basis over the estimated useful life of the software beginning when the software project is substantially complete and placed in service. The Company capitalized \$2,482 in internal use computer software costs during the year ended December 29, 2017. Costs incurred during the preliminary project stage and costs for training, data conversion, and maintenance are expensed as incurred. Impairment of Long-lived Assets -The Company periodically reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is impaired or the estimated useful lives are no longer appropriate. If indicators of impairment exist and the undiscounted projected cash flows associated with such assets are less than the carrying amount of the assets, an impairment loss is recorded to write the assets down to their estimated fair values. Fair value is estimated based on discounted future cash flows. No impairment charges were recorded during the years ended December 29, 2017, December 30, 2016 and December 31, 2015.

Business Combinations - The Company accounts for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations. The Company allocates the purchase price of the acquisition to the tangible assets acquired, liabilities assumed and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition related expenses and restructuring costs are expensed as incurred. During the measurement period, the Company records adjustments to provisional amounts recorded for assets acquired and liabilities assumed with the corresponding offset to goodwill. After the measurement period, which could be up to one year after the transaction date, subsequent adjustments are recorded to the Company's consolidated statements of income.

Goodwill and Intangible Assets - Goodwill represents the excess of purchase price over the fair value of the net assets of businesses acquired. On an annual basis, the Company makes a qualitative assessment to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. If the Company determines that the fair value of the reporting unit is less than its carrying amount, it will perform a quantitative analysis; otherwise, no further evaluation is necessary. For the quantitative impairment test, the Company compares the fair value of the reporting unit to its carrying value, including goodwill. The Company determines the fair value of the reporting unit based on a weighting of income and market approaches. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and no further testing is performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company will recognize a loss equal to the excess, limited to the total amount of goodwill allocated to that reporting unit. Impairments, if any, are charged directly to earnings. The Company has a single reporting unit for purposes of assessing goodwill impairment. We completed our most recent annual impairment test

in the third quarter of 2017 at which time we had a single reporting unit for purposes of assessing goodwill impairment. No impairment charges have been incurred to date.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

Intangible assets include customer relationships and the Company's core technology, are subject to amortization over their respective useful lives, and are classified in intangibles, net in the accompanying consolidated balance sheet. These intangibles are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. If facts and circumstances indicate that the carrying value might not be recoverable, projected undiscounted net cash flows associated with the related asset or group of assets over their estimated remaining useful lives is compared against their respective carrying amounts. If an asset is found to be impaired, the impairment charge will be measured as the amount by which the carrying amount of an entity exceeds its fair value. Trademarks and brands are considered to be indefinite life intangibles, and are not amortized but are subject to testing for impairment annually. No impairments of intangible assets were identified in the years ended December 29, 2017, December 30, 2016 and December 31, 2015.

Self-Insurance - Since January 2015, the Company has been partially self-insured for its U.S. employee health and welfare benefits. The Company's liability for self-insurance is based on claims filed and an estimate of claims incurred but not yet reported. The Company considers a number of factors, including historical claims information, when determining the amount of the accrual. Costs related to the administration of the plan and related claims are expensed as incurred. The Company has third-party insurance coverage to limit exposure for individually significant claims. The estimates for unpaid claims incurred as of December 29, 2017 and December 30, 2016 are \$934 and \$1,101 respectively, and are recorded within accrued expenses on the consolidated balance sheets.

Revenue Recognition - The Company recognizes sales when persuasive evidence of an arrangement exists, title has transferred, the sales price is fixed or determinable, and collectability of the receivable is reasonably assured. Provisions for discounts, rebates, sales incentives, returns, and other adjustments are provided for in the period the related sales are recorded based on an assessment of historical trends and current projection of future results. Sales are recorded net of sales tax.

Cost of Sales - Cost of sales primarily consists of materials and labor expense in the manufacturing of the Company's products. Cost of sales also includes provisions for excess and obsolete inventory, warranty costs, certain allocated costs for facilities, depreciation and other manufacturing overhead. Additionally, it includes stock-based compensation for personnel directly involved with manufacturing the Company's product offerings.

Shipping and Handling Fees and Costs - The Company includes shipping and handling fees billed to customers in sales. Shipping costs associated with inbound freight are capitalized as part of inventory and included in cost of sales as products are sold.

Sales and Marketing - Sales and marketing expenses include costs related to sales, customer service and marketing personnel, including their wages, employee benefits and related stock-based compensation, and occupancy related expenses. Other significant sales and marketing expenses include race support and sponsorships of events and athletes, advertising and promotions related to trade shows, travel and entertainment, and promotional materials, products and sales offices costs.

Research and Development - Research and development expenses consist primarily of salaries and personnel costs, including wages, employee benefits and related stock-based compensation for the Company's engineering, research and development teams, occupancy related expenses, fees for third party consultants, service fees, and expenses for prototype tooling and materials, travel, and supplies. The Company expenses research and development costs as incurred.

General and Administrative - General and administrative expenses include costs related to executive, finance, information technology, human resources and administrative personnel, including wages, employee benefits and related stock-based compensation expenses. The Company records professional and contract service expenses, occupancy related expenses associated with corporate locations and equipment, and legal expenses in general and administrative expenses.

Stock-Based Compensation - The Company measures stock-based compensation for all stock-based awards, including stock options and restricted stock units (“RSUs”), based on their estimated fair values on the date of the grant and recognizes the stock-based compensation cost for time-vested awards on a straight-line basis over the requisite service period. For performance-based RSUs, the number of shares ultimately expected to vest is estimated at each reporting date based on management’s expectations regarding the relevant performance criteria. To the extent shares are expected to vest, the stock based compensation cost is recognized on a straight-line basis over the requisite service period. The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. The Company does not estimate forfeitures in recognizing stock based compensation expense. The fair value of the RSU’s is equal to the fair value of the Company’s common stock on the grant date of the award.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

**Income Taxes** - Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Operating loss and tax credit carryforwards are measured by applying currently enacted tax laws. Valuation allowances are provided when necessary to reduce net deferred tax assets to an amount that is more likely than not to be realized. The Company recognizes the tax effects of an uncertain tax position only if it is more likely than not to be sustained based solely on its technical merits as of the reporting date and then only in an amount more likely than not to be sustained upon review by the tax authorities. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

**Advertising** - Advertising costs are expensed as incurred and recognized as sales and marketing expenses on our Consolidated Statements of Income. Costs incurred for advertising totaled \$1,070, \$1,242, and \$1,532 for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively.

**Warranties** - The Company offers limited warranties on its products generally for one to four years. The Company recognizes estimated costs related to warranty activities as a component of cost of sales upon product shipment. The estimates are based upon historical product failure rates and historical costs incurred in correcting product failures. The recorded amount is adjusted from time to time for specifically identified warranty exposures. Actual warranty expenses are charged against the Company's estimated warranty liability when incurred. Factors that affect the Company's liability include the number of units, historical and anticipated rates of warranty claims, and the cost per claim.

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

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

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

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

The carrying amounts of the Company's financial instruments, including cash, receivables, accounts payable, and accrued liabilities approximate their fair values due to their short-term nature. Amounts owed under the Company's credit facility approximate fair value due to the variable interest rate features embedded in both the line of credit and term debt.

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

**Recent Accounting Pronouncements** - In May 2014, the FASB and International Accounting Standards Board issued their converged standard on revenue recognition, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, updated in December 2016 with the release of ASU 2016-20. This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the

revenue model is that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

This standard will be effective for fiscal years, and interim periods within those years, beginning the first quarter of fiscal year 2018. The Company has selected the modified retrospective implementation method, in which the cumulative effect of initially applying the standard is recognized at the date of the initial application in retained earnings.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

The Company utilized a cross-functional team to implement the guidance related to the recognition of revenue from contracts with customers. The implementation approach included an assessment of customer contracts aimed at identifying contractual provisions that could result in a change in the timing or the amount of revenue recognized in comparison with prior guidance, as well as assessing the enhanced disclosure requirements of the new guidance. As a result of these procedures, the Company expects that the primary impact of this guidance will be on pricing provisions contained in certain customer contracts which either represent variable consideration or provide the customer with a material right, in some cases resulting in a different allocation of the transaction price than under current guidance.

The Company does not expect the adoption of this ASU to be material to its financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The guidance applies to inventory that is measured using first-in, first-out (“FIFO”) or average cost. Under the guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted ASU 2015-11 at the beginning of fiscal year 2017. The adoption of ASU 2015-11 did not have a material impact on the Company's consolidated financial statements.

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

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

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

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

ended December 29, 2017.

28

---

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## 2. Inventory

Inventory consisted of the following:

	December 29, 2017	December 30, 2016
Raw materials	\$ 51,371	\$ 46,679
Work-in-process	1,233	1,929
Finished goods	32,237	22,635
Total inventory	\$ 84,841	\$ 71,243

## 3. Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	December 29, 2017	December 30, 2016
Machinery and manufacturing equipment	\$ 33,664	\$ 28,752
Information systems, office equipment and furniture	7,715	7,449
Internal use computer software	7,819	5,337
Transportation equipment	3,325	2,531
Building and land	8,811	4,358
Leasehold improvements	9,919	8,083
Total	71,253	56,510
Less: accumulated depreciation and amortization	(27,617 )	(24,248 )
Property, plant and equipment, net	\$ 43,636	\$ 32,262

Depreciation expense was \$6,923, \$5,766, and \$4,538 for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively, including \$565, \$254, and \$0 of internal use software amortization for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively. The Company capitalized \$2,482 in internal use computer software costs during the year ended December 29, 2017.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## 4. Goodwill and Intangible Assets

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

	Gross carrying amount	Accumulated amortization	Net carrying amount	Weighted average life (years)
December 29, 2017				
Customer relationships	\$67,643	\$ (18,324 )	\$49,319	11
Core technology	33,400	(32,874 )	526	8
Patents	1,389	(1,260 )	129	4
Total	\$102,432	\$ (52,458 )	49,974	
Trademarks and brands, not subject to amortization			40,070	
Total			\$90,044	
December 30, 2016				
Customer relationships	\$38,990	\$ (15,548 )	\$23,442	12
Core technology	33,400	(32,717 )	683	8
Patents	1,335	(1,176 )	159	4
Total	\$73,725	\$ (49,441 )	24,284	
Trademarks and brands, not subject to amortization			33,571	
Total			\$57,855	

For the years ended

2017 2016 2015

Amortization of intangibles \$2,986 \$2,988 \$8,525

The Company acquired intangible assets in conjunction with acquisitions, as more fully described in Note 15 - Acquisitions of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K. Intangible assets acquired include \$28,600 in customer relationships and \$6,500 in trademarks. The acquired definite lived assets will be amortized on a straight-line basis.

Goodwill activity consisted of the following:

Balance as of December 30, 2016	\$57,781
Acquisitions (Refer to <u>Note 15 - Acquisitions</u> )	30,540
Currency translation and other adjustments	117
Balance as of December 29, 2017	\$88,438

Future amortization expense for finite-lived intangibles as of December 29, 2017 is as follows:

For fiscal year:	Amortization Expense
2018	\$ 6,067
2019	5,927
2020	5,236
2021	5,134
2022	5,010
Thereafter	22,600
Total expected future amortization	\$ 49,974



Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## 5. Accrued Expenses

Accrued expenses consisted of the following:

	December 29, 2017	December 30, 2016
Payroll and related expenses	\$ 13,211	\$ 10,717
Management earn-out related to Race Face/Easton	—	6,421
Warranty	6,481	4,593
Income tax payable	6,562	4,490
Other accrued expenses	6,354	8,214
Total	\$ 32,608	\$ 34,435

Activity related to warranties is as follows:

	For the years ended		
	2017	2016	2015
Beginning warranty liability	\$4,593	\$3,914	\$4,215
Charge to cost of sales	5,904	4,833	3,616
Fair value of warranty assumed in acquisition	1,016	—	—
Costs incurred	(5,032 )	(4,154 )	(3,917 )
Ending warranty liability	\$6,481	\$4,593	\$3,914

## 6. Related Party Transactions

In September 2014, the Company entered into an agreement with Compass to assist with compliance requirements pursuant to the Sarbanes-Oxley Act of 2002, as amended. Fees paid for services provided for compliance associated with our fiscal 2015 financial statements were approximately \$135, including \$72 expensed in the twelve months ended December 30, 2016. This agreement expired upon completion of the services related to fiscal 2015. Compass no longer holds any equity interest in the Company.

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 \$715, \$837 and \$1,203 for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, 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, through FF US Holding Corp. ("Tuscany"), acquired the business of Flagship, Inc. Tuscany 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 \$29 for the year ended December 29, 2017. 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%. See Note 8 - Commitments and Contingencies of the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for a summary of the future minimum lease payments under related party operating leases.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## 7. 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, as a result of a May 2016 amendment and restatement. 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 December 29, 2017, the one-month LIBOR and prime rates were 1.57% and 4.50%, respectively. At December 29, 2017 our weighted average interest rate on outstanding borrowing was 3.16%. 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 December 29, 2017.

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 December 29, 2017, 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:

	December 29, 2017	December 30, 2016
Amount outstanding	\$35,000	\$—
Standby letter of credit	\$5,000	\$—
Available borrowing capacity	\$60,000	\$100,000
Maximum borrowing capacity	\$100,000	\$100,000
Maturity date	May 11, 2021	

As of December 29, 2017, future principal payments for the term loan, including the current portion, are summarized as follows:

For fiscal year:

2018	\$5,156
2019	5,625
2020	7,031
2021	45,626
Total term debt	63,438
Debt issuance cost	(380 )
Long-term debt, net of issuance cost	63,058
Less: current portion	(5,038 )
Long-term debt less current portion	\$58,020

## Other Indebtedness

As of December 29, 2017, the Company has \$585 outstanding under a vendor associated line of credit.



Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## 8. 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 and in some cases contain renewal options and rent escalations based on inflation indexes. 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. Rent expense was \$6,045, \$4,819, and \$4,611 for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively. See Note 6 - Related Party Transactions of the Notes to Consolidated Financial Statements in this Annual Report for Form 10-K for additional information on related party operating leases.

Approximate remaining future minimum lease payments under these operating leases as of December 29, 2017, are as follows:

For fiscal year:	Third party future payments	Related party future payments	Total future payments
2018	\$ 4,318	\$ 1,058	\$ 5,376
2019	3,305	1,058	4,363
2020	2,906	700	3,606
2021	1,425	343	1,768
2022	2,130	86	2,216
Thereafter	\$ 14,084	\$ 3,245	\$ 17,329

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

Legal Proceedings - A lawsuit was filed on December 17, 2015 by SRAM Corporation ("SRAM") in the U.S. District Court, Northern District of Illinois, against the Company's wholly-owned subsidiary, RFE Canada Holding Corp. ("RFE Canada"). The lawsuit alleges patent infringement of U.S. Patent number 9,182,027 ("027 Patent") and violation of the Lanham Act. SRAM filed a second lawsuit in the same court against RFE Canada on May 16, 2016. That lawsuit alleges patent infringement of U.S. patent number 9,291,250 ("250 Patent"). The Company believes the lawsuits are without merit and intends to vigorously defend itself. As such, the Company has filed, before the U. S. Patent and Trademark Appeals Board ("PTAB"), for Interparties Reviews ("IPR") of the '027 Patent and separately the same for the '250 Patent. The PTAB has instituted all of the Company's IPR Petitions and has stayed a third party ex-parte re-exam of SRAM's '027 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 but are otherwise proceeding.

The SRAM lawsuits against the Company have been stayed by the U.S. District Court, Northern District of Illinois pending a PTAB determination in the Company filed SRAM patent reviews (IPRs). Meanwhile the Company filed lawsuits have moved 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.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

Other Commitments - On November 30, 2017, the Company acquired an 80% interest in 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 (the "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. See Note 15 - Acquisitions for additional information on this commitment.

In connection with the acquisitions of businesses in 2014, the Company had commitments to pay up to \$46,195 in additional consideration and acquisition related compensation, contingent upon the achievement of certain financial performance goals and in some cases continued employment through 2016. As of December 29, 2017, the Company paid \$35,153 cumulatively under these arrangements, which concluded within the current fiscal year. The Company has no further commitments related to these acquisitions.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

9. Stockholders' Equity

Secondary Stock Offerings and Share Repurchase Program

In February 2016, the Company's Board of Directors authorized the Company's 2016 stock repurchase program (the "2016 Repurchase Program"), permitting repurchases of up to an aggregate of \$40,000 in shares of common stock.

The plan 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 this program are accounted for as treasury stock under the cost method.

In March 2016, Compass sold 2,500 shares of the Company's common stock at a price of \$15.90 per share, less underwriting discounts and commissions, in a secondary public offering. The Company did not sell shares or receive any proceeds from the sales of shares by the selling stockholders. Concurrently, pursuant to the 2016 Repurchase Program and a stock repurchase agreement between Compass and the Company, the Company repurchased 500 shares of its common stock held by Compass for a total of \$7,948.

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

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

In March 2017, the Company closed another secondary offering, whereby the selling stockholders, including Compass, sold an additional 5,574 shares of the Company's common stock at a price of \$26.65 per share, less underwriting discounts and commissions. The total shares sold 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 no longer holds any equity interest in the Company.

The Company incurred approximately \$113, \$617, and \$225 of expenses in connection with the secondary offerings during the fiscal years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively.

Equity Incentive Plans

The Company has outstanding awards under the following equity incentive plans: the 2008 Stock Option Plan (the "2008 Plan"), the 2008 Non-Statutory Stock Option Plan (the "2008 Non-Statutory Plan") and the 2013 Omnibus Plan (the "2013 Plan"). No further awards will be granted pursuant to the 2008 Plan or the 2008 Non-Statutory Plan. Under the 2013 Plan, the Company has the ability to issue incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock awards, RSUs, performance units and/or performance shares.

The equity incentive plans are administered by the Compensation Committee of the Board of Directors of the Company, which has the authority to determine the type of incentive award, as well as the terms and conditions of the awards. Options granted under the plans have vesting periods ranging from one to five years and expire no later than 10 years from the date of grant. RSUs generally vest over a four-year period with 25% vesting at the end of one year and the remaining vesting annually thereafter. In addition to time-based vesting criteria, certain of our RSUs include performance-based vesting criteria. As of December 29, 2017, there were 3,576 shares reserved for issuance under the Company's equity incentive plans and 1,890 shares available for grant under the 2013 Plan. The Company generally issues new shares in connection with awards under its equity incentive plans.

Stock-Based Compensation

Compensation expense related to the Company's share-based awards for the years ended December 29, 2017, December 30, 2016 and December 31, 2015 was \$8,727, \$6,223 and \$4,907, respectively, of which \$8,641, \$5,977 and \$4,576, respectively, related to RSUs and \$86, \$246 and \$331, respectively, related to stock options.

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

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

	For the fiscal years ended		
	2017	2016	2015
Cost of sales	\$429	\$139	\$82
Sales and marketing	587	598	430
Research and development	442	357	178
General and administrative	7,269	5,129	4,217
Total	\$8,727	\$6,223	\$4,907

Stock-based compensation expense capitalized to inventory was not material for the years ended December 29, 2017, December 30, 2016 and December 31, 2015. Tax benefits related to stock-based compensation were approximately \$2,886, \$2,178, and \$1,717 for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively. Excess tax benefits of \$6,974 and \$935 were recognized as a component of income tax expense for the years ended December 29, 2017 and December 30, 2016 and \$539 was recognized as a credit to additional paid-in-capital for the year ended December 31, 2015, respectively.

Restricted Stock Units

The Company grants both time-based and performance-based stock awards which also include a time-based vesting feature. Compensation expense for time-based stock awards is measured at the grant date based on the closing market price of the Company's common stock, and recognized ratably over the vesting period.

For performance-based stock awards, compensation expense is measured based on estimates of the number of shares ultimately expected to vest at each reporting date based on management's expectations regarding the relevant performance criteria. The recognition of compensation expense associated with performance-based stock awards requires defined criteria for assessing achievement and judgment in assessing the probability of meeting the performance goals.

The following table summarizes RSU activity:

	Unvested RSUs	
	Number of shares outstanding	Weighted-average grant date fair value
Unvested at December 31, 2014	781	\$ 17.30
Granted	246	16.60
Canceled	(19 )	16.93
Vested	(235)	17.36
Unvested at December 31, 2015	773	17.07
Granted	341	15.84
Canceled	(15 )	17.83
Vested	(288)	17.16
Unvested at December 30, 2016	811	16.53
Granted	411	31.38
Canceled	(55 )	17.45
Vested	(367)	16.93
Unvested at December 29, 2017	800	\$ 23.91

The fair value of vested RSUs was \$12,587, \$5,122 and \$3,731 for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively. As of December 29, 2017, the Company had approximately \$13,242 of unrecognized stock-based compensation expense related to RSUs, which will be recognized over the remaining weighted-average vesting period of approximately 2.59 years.

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## Stock Options

The following table summarizes stock option activity:

	Number of shares outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Balance at December 31, 2014	1,742	\$ 5.25	7	\$ 19,136
Options exercised	(99 )	3.99		1,332
Balance at December 31, 2015	1,643	5.32	6	18,414
Options exercised	(193 )	5.30		2,767
Balance at December 30, 2016	1,450	5.33	5	32,528
Options exercised	(541 )	5.51		13,588
Options forfeited	(14 )	6.20		—
Options expired	(9 )	6.38		—
Balance at December 29, 2017	886	5.19	4	29,840
Options vested and expected to vest - December 29, 2017	886	5.19	4	29,840
Options exercisable - December 29, 2017	886	\$ 5.19	4	\$ 29,840

Aggregate intrinsic value represents the difference between the closing price of the Company's common stock on NASDAQ and the exercise price of outstanding, in-the-money options. The fair value of options vested during the year ended December 29, 2017 was \$203. As of December 29, 2017, stock-based compensation expense related to stock options has been fully recognized.

During the years ended December 29, 2017, December 30, 2016 and December 31, 2015, 541, 193, and 99 shares of common stock, respectively, were issued due to the exercise of stock options, resulting in proceeds to the Company of approximately \$2,981, \$1,000, and \$396, respectively.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## 10. Earnings Per Share

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

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

	For the years ended		
	2017	2016	2015
Net income attributable to Fox stockholders	\$43,128	\$35,675	\$24,954
Weighted average shares used to compute basic earnings per share	37,373	36,799	36,989
Dilutive effect of employee stock plans	1,365	1,002	905
Weighted average shares used to compute diluted earnings per share	38,738	37,801	37,894
Earnings per share:			
Basic	\$1.15	\$0.97	\$0.67
Diluted	\$1.11	\$0.94	\$0.66

The Company did not exclude any potentially dilutive shares from the calculation of diluted earnings per share for the years ended December 29, 2017, December 30, 2016 and December 31, 2015, as none of these shares would have been antidilutive.

Table of Contents

## FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## 11. Income Taxes

## Provision for Income Taxes

The components of income tax expense are as follows:

	For the years ended		
	2017	2016	2015
Current:			
Federal	\$ 13,483	\$ 5,710	\$ 11,468
State	648	(1,287 )	(22 )
Foreign	8,148	6,008	2,208
Total	22,279	10,431	13,654
Deferred:			
Federal	(923 )	(1,729 )	(3,751 )
State	387	(1,156 )	(613 )
Foreign	(641 )	(131 )	—
Total	(1,177 )	(3,016 )	(4,364 )
Provision for income taxes	\$ 21,102	\$ 7,415	\$ 9,290

The Company's income before provision for income taxes was subject to taxes in the following jurisdictions for the following periods:

	For the years ended		
	2017	2016	2015
United States	\$ 36,555	\$ 22,348	\$ 24,308
Foreign	27,730	20,742	9,936
	\$ 64,285	\$ 43,090	\$ 34,244

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

The following table presents a reconciliation of the statutory federal rate and the Company's effective tax rate for the periods presented:

	For the years ended		
	2017	2016	2015
Tax at federal statutory rate	35.0 %	35.0 %	35.0 %
State taxes, net of federal benefit	2.0	1.0	2.2
Stock-based compensation	(10.6)	(2.0)	(0.1)
Foreign rate differential	(4.6 )	(9.4)	—
Change in tax rates due to Tax Cuts and Jobs Act	(3.8 )	—	—
Research and development tax credit	(2.2 )	(2.0)	(2.9)
Change in liability for unrecognized tax benefits	(1.7 )	(4.9)	(2.8)
California business development tax credit	—	(1.1)	—
Manufacturing deduction	—	—	(2.0)
Valuation allowance on foreign tax credits	9.4	—	—
Tax on unremitted foreign earnings	8.9	—	—
Other	0.4	0.6	(2.3)
Total provision	32.8 %	17.2 %	27.1 %

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. The TCJA reduces the US 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 US 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-US intangible property and generates earnings that prior to the enactment of TCJA, were not currently subject to payment of US income taxes or accrual of deferred tax expense because the Company asserted that such earnings were permanently invested outside the US. The unremitted earnings of Fox Switzerland became subject to US tax as a result of the one-time transition tax provided for by the TCJA, which approximated \$3,706. As a result of the change in US taxation, the Company no longer considers the unremitted earnings of Fox Switzerland to be permanently reinvested, and as such recorded a deferred tax liability of approximately \$2,026, primarily representing foreign withholding tax due upon remittance.

As permitted by the Securities and Exchange Commission'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.



Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## Provisional amounts

Deferred Tax Assets and Liabilities: The Company remeasured its US 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 on-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 related to the remeasurement of our deferred tax balance was a net benefit of \$2,448.

One-Time Transition Tax: The one-time transition tax is based on the total post-1986 earnings and profits on which US tax were previously deferred. 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 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.

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 incentive was not material to the Company's income tax provision for the years ended December 29, 2017 or December 30, 2016.

On February 3, 2015, the Company announced that it had been awarded a four-year, \$1,700 tax credit from the State of California, subject to certain in-state growth requirements. The Company will evaluate the requirements in each of the eligible years and realize the benefits of the credit if conditions are met. For the year ended December 30, 2016, the Company met requirements to recognize a benefit of \$750, or \$488 net of federal income tax.

## Deferred Income Taxes

	December 29, 2017	December 30, 2016
Deferred tax assets:		
Foreign tax credits	\$ 9,381	\$ 2,128
Research and development tax credits	2,473	1,244
Inventory	2,344	3,174
Accrued withholding taxes	1,940	—
Stock-based compensation	1,718	2,043
Accrued liabilities	1,649	2,384
Other	703	741
Total deferred tax asset	20,208	11,714
Valuation allowance	(6,336 )	—
Net deferred tax asset	13,872	11,714
Deferred tax liabilities:		
Depreciation	(4,496 )	(5,707 )
Intangible assets	(3,545 )	(1,769 )
Accrued withholding tax on unremitted foreign dividends	(2,179 )	—
Other	(983 )	(156 )
Total deferred tax liability	(11,203 )	(7,632 )

Net deferred tax asset	\$ 2,669	\$ 4,082
------------------------	----------	----------

41

---

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

As of December 29, 2017, the Company had foreign tax credits of \$9,381 which begins to expire in 2025, unless previously utilized, and foreign net operating loss carryforwards of \$908, of which \$564 begin to expire in 2034 if not utilized and \$344 which do not expire. The Company also had federal and state research and development credits of approximately \$1,409 and \$2,123. The federal research and development credits begin to expire in 2036 unless previously utilized, and the state research credits do not expire.

As of December 29, 2017, the Company assessed the realizability of deferred tax assets and evaluated the need for a valuation allowance for deferred tax assets for each jurisdiction based on the framework of ASC 740. As a result of TCJA, the Company believes that it is more likely than not that a portion of its foreign tax credits will not be realizable, and as such, provided an allowance of \$6,031. 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 US taxable income and foreign sourced income will increase in future years, allowing a portion of the foreign tax credits to be utilized.

Additionally, based on available evidence, it was concluded on a more likely than not basis that deferred tax assets of the Company's Canadian subsidiary and Austrian branch are not realizable. Accordingly, a valuation allowance of \$305 has been recorded to offset the deferred tax assets in these jurisdictions.

## Unrecognized Tax Benefits

	For the years ended		
	2017	2016	2015
Balance - beginning of period	\$7,440	\$8,924	\$7,785
Increase related to current year tax positions	460	1,828	1,878
Increase (decrease) related to prior year tax positions	1,770	(1,193 )	584
Decrease due to expiration of statute of limitations	(1,516 )	(2,119 )	(1,323 )
Balance - end of period	\$8,154	\$7,440	\$8,924

As of December 29, 2017, the Company had \$8,154 of unrecognized tax benefits, of which approximately \$6,966, if recognized, would favorably impact the effective tax rate. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. On January 30, 2018, the Company received a no change letter from the Internal Revenue Service ("IRS") related to the audit of the Company's 2015 federal tax return. Specifically, the audit resolved issues involving the 2015 deductibility of amortization and depreciation arising from the acquisition of the Company in 2008. The favorable conclusion of the audit will result in a decrease in the unrecognized tax benefits of \$1,490, of which \$1,352 will favorably impact the effective tax rate in 2018. The IRS is considering a closing agreement that will resolve the uncertainty about acquisition related amortization and depreciation deductions for all open tax years. As a result, the Company believes that it is reasonably possible that unrecognized tax benefits at December 29, 2017 could be reduced by an additional \$5,162 in the next twelve months. Including the reversal of amounts presented as contra to our deferred tax assets, the favorable impact of the closing agreement on the effective tax rate could amount to approximately \$8,256 in 2018.

As of December 29, 2017 and December 30, 2016, the Company had approximately \$311 and \$193, respectively, of cumulative interest and penalties related to the uncertain tax positions, and has elected to treat interest and penalties as a component of income tax expense.

The Company's 2014 and 2016 federal tax returns, state tax returns from 2013 and forward, and foreign tax returns from 2015 and forward are subject to examination by tax authorities.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

## 12. Fair Value Measurements

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

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

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

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

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:

	December 29, 2017				December 30, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities:								
Credit facility	\$-\$63,058	\$—	\$63,058	\$63,058	\$-\$66,683	\$—	\$66,683	\$66,683
Non-controlling interest subject to put provisions	—	12,955	12,955	12,955	—	—	—	—
Contingent consideration	—	—	—	—	—	5,532	5,532	5,532
Total liabilities measured at fair value	\$-\$63,058	\$12,955	\$76,013	\$76,013	\$-\$66,683	\$5,532	\$72,215	\$72,215

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 categories of the fair value hierarchy during the years ended December 29, 2017, December 30, 2016 and December 31, 2015.

As of December 29, 2017 and December 30, 2016, the carrying amount of the principal under the Company's Second Amended and Restated Credit Facility approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio. As of December 29, 2017, the Company used Level 2 inputs to determine the fair value of its Second Amended and Restated Credit Facility.

The Company has potential obligations to purchase the 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 (see [Note 15 - Acquisitions](#) of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K). 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 initial non-controlling interest value was implicit in the purchase price and will be revalued each quarter, with the adjustment being recorded directly as a component of retained earnings. The methodology the Company expects to use to estimate the fair value of the non-controlling interests subject to these put provisions is based on an average multiple of earnings before income taxes, depreciation and amortization ("EBITDA"), taking into consideration historical earnings and other factors. The estimated fair values of the non-controlling interests subject to put provisions can fluctuate and the implicit multiple of earnings at which these non-controlling interest obligations may ultimately be settled could vary significantly from our future estimates depending upon market conditions.

The Company measured its contingent consideration liability arising from a 2014 acquisition using Level 3 unobservable inputs. The contingent consideration liability is associated with the achievement of adjusted EBITDA targets, and is estimated at each balance sheet date by considering, among other factors, results of completed periods and the Company's most recent financial projection for future periods subject to earn-out payments. The change in

fair value is recorded as a component of fair value adjustment of contingent consideration and acquisition related compensation in the accompanying consolidated statement of income for the year ended December 29, 2017.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

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

	Obligations (measured with level 3 inputs)
Balance at December 30, 2016	\$ 5,532
Acquisition of non-controlling interest	12,900
Net income attributable to non-controlling interest	55
Change in fair value	(150 )
Payment of contingent liability	(5,382 )
Balance at December 29, 2017	\$ 12,955

## 13. Retirement Plan

The Company established a 401(k) plan to provide tax deferred salary deductions for all eligible employees. Participants may make voluntary contributions to the 401(k) plan, limited by certain IRS restrictions. The Company made matching contributions of \$437, \$373, and \$298 for each of the years ended December 29, 2017, December 30, 2016 and December 31, 2015, respectively.

## 14. Segments and Geographic Areas

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

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

	For the years ended		
	2017	2016	2015
North America	\$280,860	\$221,312	\$193,675
Asia	101,079	100,999	99,394
Europe	86,405	76,999	69,580
Rest of the World	7,289	3,767	4,149
Total sales	\$475,633	\$403,077	\$366,798

Previously, the Company reported sales to U.S. customers on a standalone basis, while sales to customers in the rest of North America were included under the "Rest of the World" caption. The Company has determined that the markets in North America share common economic characteristics and as such has combined sales to all North American countries and reclassified our previously reported sales for the twelve month periods ended December 30, 2016 and December 31, 2015 for comparability.

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

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

	December 29, 2017	December 30, 2016
United States	\$ 38,450	\$ 29,344
International	5,186	2,918
Total long-lived assets	\$ 43,636	\$ 32,262

The following table summarizes total sales by product category:

	For the years ended		
	2017	2016	2015
Bikes	\$245,378	\$226,686	\$211,704
Power vehicles	230,255	176,391	155,094
Total sales	\$475,633	\$403,077	\$366,798

## 15. Acquisitions

## Tuscany

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, pursuant to ASC 805. The Company believes that this acquisition will accelerate the growth of its off-road and on-road truck products. In connection with the acquisition, the Company paid \$53,350 in cash financed through a combination of its existing credit facility and cash on hand. This purchase included \$242 in intercompany accounts payable, resulting in a total purchase price of \$53,592. This transaction was accounted for as a business combination.

The stockholders' agreement executed in association with the acquisition provides the Company with a 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 as defined in the purchase agreement. 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 as defined in the purchase agreement.

In accordance with ASC 805, the Company recognized a non-controlling interest in Tuscany and measured the non-controlling interest at fair value on the acquisition date. The Company concluded that the put feature embedded in the agreement causes the non-controlling interest to be redeemable, pursuant to ASC 480, because the put option requires cash settlement. Therefore, the Company has classified the non-controlling interest as temporary (mezzanine) equity in the consolidated balance sheets.

The purchase price of Tuscany is 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. Goodwill represents the value of synergies from combining operations Tuscany and the Company, as well as intangibles that do not qualify for separate recognition. Intangibles and goodwill related to the Company's 80% interest are deductible for tax purposes. The Company incurred \$0.9 million of transaction costs in conjunction with the Tuscany acquisition for the year ended December 29, 2017, which is included in general and administrative expense in the accompanying consolidated

statement of income.

45

---

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

The Company's allocation of the purchase price to the net tangible and intangible assets acquired and liabilities assumed is as follows:

Acquisition consideration	
Cash consideration	\$53,350
Settlement of pre-existing accounts	242
Total consideration at closing	\$53,592
Fair market values	
Other current and non-current assets	\$5,966
Property, plant and equipment	1,416
Customer relationships	28,600
Trademarks and brand	6,500
Goodwill	30,392
Total assets acquired	72,874
Accounts payable and accrued expenses	3,329
Debt assumed in acquisition	465
Deferred tax liability for tax free rollover of non-controlling interest	2,588
Total liabilities assumed	6,382
Redeemable non-controlling interest	12,900
Purchase price allocation	\$53,592

The following unaudited pro forma financial information shows the combined results of operations of the Company and Tuscany, as if the acquisition had occurred as of the beginning of the periods presented. The pro forma results include the effects of the elimination of intercompany sales and profits, the amortization of purchased intangible assets and acquired inventory valuation step-up, interest expense on the revolving debt utilized to finance the acquisition, and the net tax benefit of the above adjustments calculated at the statutory combined federal and state tax rates of 41%. Tuscany was operated as an S Corporation for federal taxation purposes. A pro forma adjustment has been made to reflect the income taxes that would have been recorded at the federal and state statutory rates based on Tuscany's net income. This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations or of the results that would have occurred had the acquisition taken place in the periods noted below.

	For the years ended	
	(unaudited)	
	2017	2016
Pro forma sales	\$515,159	\$444,463
Pro forma net income	\$45,249	\$37,507

## Other Acquisitions

The Company completed the following business acquisitions in the years ended December 30, 2016 and December 31, 2015, none of which were material to the Company's financial statements:

In January 2015, the Company, through certain of its subsidiaries, acquired certain specified assets of a machine shop in Spring Arbor, Michigan. The Company paid cash of \$765. Based on the allocation of the purchase price to the assets acquired and liabilities assumed, the Company recorded goodwill of \$567 which represents the strategic fit with

the Company's operations.

46

---

Table of Contents

FOX FACTORY HOLDING CORP.

Notes to Consolidated Financial Statements - continued

December 29, 2017

(in thousands, except per share amounts)

In November 2015, the Company, through certain of its subsidiaries, acquired certain specified assets of Marzocchi's mountain bike product lines. The Company paid cash of \$1,649. Based on the allocation of the purchase price to the assets acquired and liabilities assumed, the Company recorded a gain of \$315, net of tax, to reflect the excess of the fair value acquired over the consideration paid which is included in other expense (income), net, in the statement of income for the period ended December 31, 2015.

In 2016, the Company acquired certain specified assets of two businesses for cash consideration of \$198, of which \$48 and \$148 were allocated to net tangible assets and goodwill, respectively.

## 16. Selected Quarterly Financial Data (Unaudited)

Selected summarized quarterly financial information for 2017 and 2016 is as follows:

	Quarter Ended							
	Dec 29, 2017	Sep 29, 2017	Jun 30, 2017	Mar 31, 2017	Dec 30, 2016	Sep 30, 2016	Jul 1, 2016	Apr 1, 2016
Sales	\$121,093	\$127,399	\$120,811	\$106,330	\$111,555	\$109,011	\$102,294	\$80,217
Gross profit	39,122	42,597	39,056	33,714	34,057	34,886	32,327	25,118
Income from operations	16,053	20,378	18,189	12,417	13,483	15,086	11,278	5,694
Net income attributable to Fox Stockholders	2,802	16,072	13,726	10,528	9,812	13,684	8,917	3,262
Earnings per share:								
Basic	\$0.07	\$0.43	\$0.37	\$0.28	\$0.27	\$0.37	\$0.24	\$0.09
Diluted	\$0.07	\$0.41	\$0.35	\$0.27	\$0.26	\$0.36	\$0.24	\$0.09