6634 Highway 53
Braselton, GA 30517
1.800.349.7469
**RIDEFOX.COM**

March 19, 2019

Dear Stockholders,

Fox Factory Holding Corp. posted record fiscal year 2018 results thanks to strong sales of our performance-defining products and outstanding execution by our FOX employees. These results were driven by positive reception to our continued brand building efforts, OEM and aftermarket growth, a full year of sales from the completed Tuscany acquisition, and consistent execution and favorable business fundamentals in both the Powered Vehicles Group and the Specialty Sports Group.

Product innovation remains a cornerstone of the FOX brand as we enter fiscal year 2019, and this continues to drive our success as the Powered Vehicles Group and the Specialty Sports Group remain focused on delivering differentiated performance-defining products to our passionate and loyal customers.

I also would like to share a few highlights from our record 2018 fiscal year. On the Powered Vehicles Group side, Ford Motor Company announced the addition of our proprietary Live Valve semi-active, electronic suspension to the 2019 F-150 Raptor. We also worked with Fiat Chrysler Automobiles and Toyota to integrate FOX suspension products on the all-new 2020 Jeep Gladiator Rubicon and the 2020 Toyota Sequoia TRD Pro. The Sequoia is the fourth model in Toyota's TRD Pro lineup, and we're pleased that the entire TRD Pro lineup is now on FOX. Tuscany also unveiled the officially licensed 2019 F-150 Harley-Davidson Edition at the Chicago Auto Show.

Our work with original equipment manufacturers (OEMs) and in the aftermarket helps us further develop the off-road capable, on-road vehicle market. We believe the popularity of our powered vehicle products validates both the market's appetite for such vehicles and the customer's desire for performance-defining products.

The Specialty Sports Group introduced a new lightweight trail fork, the Factory Series 34 Step-Cast, and two new forks under the Marzocchi brand, the BOMBER 58 downhill fork and the BOMBER Z1 trail/enduro fork. *ENDURO MountainBIKE Magazine* named the BOMBER Z1 its Best Value in Test – Enduro Fork Group.

We continued to earn strong editorial accolades in 2018. *Pinkbike* named the FOX GRIP2 Damper Cartridge its Suspension Product of the Year, Live Valve won the Design & Innovation Award in the Off-Road Components category, and FOX was rated the Best Brand in the 2018 *ENDURO MountainBIKE Magazine* Reader Survey. Race Face was rated the No. 1 crankset and No. 1 chainring to buy in the *VitalMTB* Reader Survey, and *Outdoor Gear Lab* picked the Race Face Next R31 Carbon Wheelset as its Editors' Choice, Best Mountain Bike Wheels.

From the beginning, racing has been an integral part of our R&D and brand building strategy. Last year FOX drivers swept the top five overall at the Baja 1000, and Rob MacCachren clinched the 2018 championship. Wayne Matlock won the Baja 1000 Pro UTV Forced Induction Class, the 2018 Pro UTV Forced Induction championship, and helped his team capture the overall Series championship – a first for UTVs.

In the Specialty Sports Group, FOX athletes took eight of the Top 10 spots in the men's downhill UCI world championships, won the women's downhill UCI world championships, earned six of the Top 10 overall spots in the men's cross-country UCI World Cup, and won the FMBA Slopestyle World Championship and Red Bull Rampage.

Looking at the fiscal 2018 financial results, we exceeded our guidance and generated record sales of $619.2 million, an increase of approximately 30% over 2017. This increase was comprised of 46.5% and 14.9% growth in sales of Powered Vehicles Group and Specialty Sports Group products, respectively, as compared to fiscal 2017. This growth was primarily attributable to improved spec position and new product innovations for the Specialty Sports Group products and to aftermarket on-road replacement shocks, automotive OEM, and our Tuscany upfitting business for the Powered Vehicles Group.

I believe we are well positioned for future long-term growth. We will continue to make strategic investments to expand our manufacturing capacity, primarily in our U.S. operations, to better support our growing business needs. We continue to explore potential new markets, and I believe our ongoing focus on product innovation will keep FOX in an industry leadership position.

We also saw the end of an era when FOX Factory, Inc.'s visionary founder Robert "Bob" C. Fox Jr. retired from the Board of Directors in August 2018. Our success is a direct result of his relentless pursuit of innovation and excellence, first as our Chief Executive Officer from our February 1978 inception to January 2008, then as a member of our Board from 2008 until his retirement this year. FOX was built on his immense passion for the brand and his never-ending commitment to be the best, and that passion and commitment is alive and well today.

Recently, I announced my decision to retire from my role as CEO. On June 29, 2019 I will become Executive Chairman of the Board. Mike Dennison, who joined our Board of Directors in February 2018 and became President of the Powered Vehicles Group in August, will be my successor. His vast international operating experience and deep understanding of FOX, its employees, and the company's diverse end markets makes him uniquely qualified to lead FOX into the next phase of our growth.

In summary, we are pleased with our fiscal 2018 results. The FOX team is committed to growing our brand presence in existing OEM and aftermarket channels while pursuing new opportunities to help ensure we continue to generate future growth and enhance stockholder value. Product innovation will remain a FOX hallmark, and we will remain focused on strategic operational improvements to drive long-term sales and profit growth.

It is my pleasure and honor to be part of the FOX team, and I thank all FOX customers, employees, sponsored athletes, and suppliers for their dedication, loyalty, and support of our brand.

Thank you for your interest in FOX. It has been my privilege and honor to be a part of the FOX team, and I look forward to continuing to work with Mike, the Board of Directors, and our entire FOX team in my new role as Executive Chairman.

Sincerely,

Larry L. Enterline
Chief Executive Officer

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

# FORM 10-K

(Mark One)

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

**For the fiscal year ended December 28, 2018**

**OR**

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

**Commission File Number: 001-36040**

**Fox Factory Holding Corp.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **26-1647258** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **6634 Hwy 53**<br>**Braselton, GA** | **30517** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(831) 274-6500**
(Registrant's Telephone Number, Including Area Code)

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

| Title of Each Class | Name of each exchange on which registered |
|---|---|
| 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 every Interactive Data File required to be submitted 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 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 the 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 | ☐ | 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 29, 2018 (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 $1,240,176,000. As of February 24, 2019, there were 37,990,546 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Definitive Proxy Statement for the 2019 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.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- *our ability to develop new and innovative products in our current end-markets;*
- *our ability to leverage our technologies and brand to expand into new categories and end-markets;*
- *our ability to increase our aftermarket penetration;*
- *our ability to accelerate international growth;*
- *our exposure to exchange rate fluctuations;*
- *the loss of key customers;*
- *our ability to improve operating and supply chain efficiencies;*
- *our ability to enforce our intellectual property rights;*
- *our future financial performance, including our sales, cost of sales, gross profit or gross margins, operating expenses, ability to generate positive cash flow and ability to maintain our profitability;*
- *our ability to maintain our premium brand image and high-performance products;*
- *our ability to maintain relationships with the professional athletes and race teams we sponsor;*
- *our ability to selectively add additional dealers and distributors in certain geographic markets;*
- *the growth of the markets in which we compete, our expectations regarding consumer preferences and our ability to respond to changes in consumer preferences;*
- *changes in demand for performance-defining products;*
- *the loss of key personnel, management and skilled engineers;*
- *our ability to successfully identify, evaluate and manage potential or completed acquisitions and to benefit from such acquisitions;*
- *the outcome of pending litigation;*
- *future disruptions in the operations of our manufacturing facilities;*
- *our ability to adapt our business model to mitigate the impact of certain changes in tax laws including those enacted in the US in December 2017;*
- *changes in the relative proportion of profit earned in the numerous jurisdictions in which we do business and in tax legislation, case law and other authoritative guidance in those jurisdictions;*
- *products recalls and product liability claims; and*
- *future economic or market conditions.*

*You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects and the outcomes of any of the events described in any forward-looking statements are subject to risks, uncertainties, and other factors. In addition to the risks, uncertainties and other factors discussed above and elsewhere in this Annual Report on Form 10-K, the risks, uncertainties and other factors expressed or implied discussed in Item 1A, "Risk Factors" of this Annual Report on Form 10-K could cause or contribute to actual results differing materially from those set forth in any forward-looking statement. Moreover, we operate in a very competitive and challenging environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur. Actual results, events, or circumstances could differ materially from those contemplated by, set forth in, or underlying any forward-looking statements.*

*For all of these forward-looking statements we claim the protection of the safe harbor for forward-looking statements in Section 27A of the Securities Act and Section 21E of the Exchange Act.*

*The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.*

# Fox Factory Holding Corp.
## FORM 10-K
## Table of Contents

# PART I

## ITEM 1. BUSINESS

Our company, Fox Factory Holding Corp., designs, engineers, manufactures and markets performance-defining products and systems for customers worldwide. Fox Factory Holding Corp. is the holding company of Fox Factory, Inc. As used herein, "Fox Factory," "FOX," the "Company," "we," "our," and similar terms refer to Fox Factory Holding Corp. and its subsidiaries, unless the context indicates otherwise. Our premium brand, performance-defining products and systems are used primarily on bicycles ("bikes"), side-by-side vehicles ("Side-by-Sides"), on-road vehicles with and without off-road capabilities, off-road vehicles and trucks, all-terrain vehicles, or ATVs, snowmobiles, specialty vehicles and applications, motorcycles and commercial trucks. Some of our products are specifically designed and marketed to some of the leading cycling and powered vehicle original equipment manufacturers ("OEMs"), while others are distributed to consumers through a global network of dealers and distributors.

Fox Factory, Inc., our operating subsidiary, was incorporated in California in 1978. Fox Factory Holding Corp. was incorporated in Delaware on December 28, 2007. In October 2018, we announced the relocation of our corporate headquarters from Scotts Valley, California to Braselton, Georgia, which was effective on December 31, 2018.

In August 2013, we completed an initial public offering ("IPO") of our common stock. Our common stock is traded on the NASDAQ Global Select Market (the "NASDAQ") under the symbol "FOXF."

### Description of our business

We are a designer, manufacturer and marketer of performance-defining products and systems used primarily on bikes, Side-by-Sides, on-road vehicles with and without off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, motorcycles, and commercial trucks. We believe our products offer innovative design, performance, durability and reliability. Our brand is associated with high-performance and technologically advanced products, by which we generally mean products that provide users with improved control and comfort while riding over rough terrain in varied environments, or providing improved control and responsiveness for on-road only vehicles. We believe that the performance of our products has been demonstrated by, and our brand benefits from, the success of professional athletes who use our products in elite competitive events, such as the Union Cycliste Internationale Mountain Bike World Cup and the X Games. We believe the exposure our products receive when used by successful professional athletes positively influences the purchasing habits of enthusiasts and other consumers seeking high-performance products. We believe that our strategic focus on the performance and racing segments in our markets influences many aspiring and enthusiast consumers who we believe seek to emulate the performance of professional and other elite athletes. We believe our products are generally sold at premium prices, which to us means manufacturer suggested retail sale prices that are generally in the upper quartile of their respective product categories.

We design our products for, and market our products to, some of the world's leading cycling and automotive OEMs and to consumers through the aftermarket channel. Many of our OEM customers, including Giant, Santa Cruz Bicycles, Specialized, Scott, Trek, Yeti Cycles and YT in bikes and BRP, Ford, Honda, Jeep, Polaris, Toyota, Triumph, and Yamaha in powered vehicles, are among the market leaders in their respective product categories, and help shape, as well as respond to, consumer trends in their respective categories. We believe that OEMs often prominently display and incorporate our products to improve the marketability and consumer demand for their performance models, which reinforces our brand image. In addition, consumers select our products in the aftermarket channel where we market through a global network of dealers and distributors.

### Industry

We participate in large global markets for bikes and powered vehicles used by recreational and professional users. Today, our products for bicycles are primarily for mountain bikes, road bikes, and e-bikes. Our products for powered vehicles are used primarily on Side-by-Sides, on-road vehicles with and without off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, motorcycles, and commercial trucks.

We focus on premium-priced products within each of these categories, which we consider to be the high-end segment because of their higher retail sale prices, where we believe consumers prefer well-designed, performance-oriented equipment. We believe that performance-defining products, which include suspension systems, as well as wheels, cranks, and other components, are critical to the performance of the bikes and powered vehicles in the product categories in which we focus and that technical features, component performance, product design, durability, reliability, and brand recognition strongly influence consumer purchasing decisions.

We believe the high-end segments in which we participate are well positioned for growth due to several factors, including:

- increasing consumer appetite for performance-defining products;
- increasing average retail sales prices, which we believe are driven by differentiated and feature-rich products with advanced technologies;
- continuing product cycle innovation, which we have observed often motivates consumers to upgrade and purchase new products for enhanced performance; and
- increased sales opportunities for high-end bikes and powered vehicles in international markets.

As vehicles in our end-markets evolve and grow more capable, performance-defining products and systems have become, and we believe will continue to become, increasingly more important for improved performance and control. Additionally, we believe there are opportunities to continue to leverage our technical know-how of suspension products to provide solutions beyond our current applications and end-markets.

**Our competitive strengths**

***Broad offering of performance-defining products across multiple consumer markets***

Our performance-defining products enhance vehicle performance across multiple consumer markets. Through the use of adjustable suspension, position sensitive damping, multiple air spring technologies, lightweight and rigid materials, and other technologies and methods, our products improve the performance and control of the vehicles used by our consumers. We believe our reputation for performance-defining products is reinforced by the successful finishes in world class competitive events by athletes incorporating our products in their vehicles.

***Premium brand with strong consumer loyalty***

We believe that we have developed a reputation for performance-defining products and that we own and license established trademarks, such as FOX®, FOX RACING SHOX®, and RACE FACE® which are perceived as premium brands. As such, our performance-defining products are generally sold at premium prices. We take great effort to maintain our brands in the eyes of consumers. For instance, our FOX® logo is prominently displayed on our FOX® branded products used on bikes and powered vehicles sold by our OEM customers, which helps further reinforce our brand image. We believe that our brands have achieved strong loyalty from our consumers. To support our brands, we introduce new products that we believe feature innovative technologies designed to improve vehicle performance and enhance our brand loyalty with consumers.

***Track record of innovation and new product introductions***

Innovation, including new product development, is a key component of our growth strategy. Due to our experience in suspension engineering and design in multiple markets and with a variety of vehicles, solutions we develop for use in one market can ultimately be deployed across multiple markets. For example, we believe that our success in the high-end ATV category led to the widespread adoption of our suspension technology in the Side-by-Side market. Our innovative product development and speed to market are supported by:

- our racing culture, including on-site technical race support of professional athletes, which provides us with unique real-time insights as to the evolving performance-defining product needs of those participating in challenging world-class events and is an integral part of our R&D efforts;
- ongoing research and development through a team of full-time engineers and numerous other technicians and employees who spend at least part of their time testing and using our products and helping develop engineering-based solutions to enhance our product offerings;
- feedback from professional athletes, race teams, enthusiasts and other consumers who use our products;
- strategic and collaborative relationships with OEM customers, which furthers our ability to extend technologies and applications across end-markets; and
- our integrated manufacturing facilities and performance testing center, which allow us to quickly move from concept to product.

Over the past several years, we have developed multiple new products, such as:

- Live Valve, our proprietary semi-active, electronic suspension that processes data from multiple vehicle sensors to adjust the suspension virtually instantaneously to the demands of changing terrain. This technology is currently in use on Side-by-Sides, off-road capable, on-road trucks, and mountain bikes;
- 32, 34 and 36 Factory Series FLOAT FIT4, which reduces overall fork weight, provides external adjustability with our fourth-generation FOX Isolated Technology (FIT) closed-cartridge damper, and includes the self-adjusting negative chamber air spring for quieter operation and ease of adjustment;

- The GRIP2 fork damper, which is our next-evolution sealed cartridge FIT system, our highest performing gravity-focused damper. GRIP2 shares its roots with the original GRIP architecture, but has been enhanced with all-new technology: four-way adjustability, VVC high-speed rebound circuit, high-performance mid-valve, and overall friction-reducing treatments;
- X2 technology used in our Factory Series FLOAT and DH rear shocks, which allows the rider to independently tune high- and low-speed compression and high- and low-speed rebound;
- DPX2 rear shock technology that combines the character of our DPS damping and X2 damping circuits to provide a lightweight trail-tuned adjustable shock;
- Rhythm series fork products developed to address a lower price point offering without compromising proven FOX performance;
- PODIUM Internal Bypass, introduced into the Side-by-Side market, which through its internal bypass technology, allows the vehicle to be plush on small bumps and deliver excellent chassis control while providing progressive bottoming resistance with each increment of travel used;
- X2 technology used in our 2.5 PODIUM shocks for side-by-sides that feature high- and low-speed rebound adjustment, high- and low-speed compression adjustment, and a dual-rate spring for the rear shocks to allow drivers to tune for many different terrain types and driving styles;
- Race Face Vault Hub, a new 120-point high-engagement mountain bike hubset featuring tool-free end caps that simplify conversion among all major axle standards and is approved for e-bike applications;
- Race Face Next R31 Carbon Wheels featuring a single spoke length throughout and an offset rim design for improved spoke balance and strength; and
- Easton EC90 SL Crankset with Cinch Power Meter spindle, a versatile road bike crankset that allows quick conversion between 1x and 2x road and gravel chainring configurations. The Cinch Power Meter spindle, through a one-time connection to a smart phone, automatically works with ride-recording and power-measurement applications.

***Strategic brand for OEMs, dealers and distributors***

Through our strategic relationships, we are often sought out by our OEM customers and work closely with them to develop and design new products and product enhancements. We believe our collaborative approach and product development processes strengthen our relationships with our OEM customers. We believe consumers value our branded products when selecting performance bikes and powered vehicles, and as a result, OEMs purchase and incorporate our products in their bikes and powered vehicles in order to increase the sales of their premium-priced products. In addition, we believe the inclusion of our products on high-end bikes and powered vehicles reinforces our premium brand image which helps to drive our sales in the aftermarket channel where dealers and distributors sell our products to consumers.

***Experienced management team***

We have an experienced senior management team led by Larry L. Enterline, our Chief Executive Officer. Many members of our management team and many of our employees are avid users of our products, which further extends their knowledge of, and expertise in, our products and end-markets. We are able to attract and retain highly trained and specialized employees who enhance our Company culture and serve as strong brand advocates.

***Our strategy***

Our goal is to expand our leadership position as a designer, manufacturer and marketer of performance-defining products designed to enhance ride dynamics and performance. We intend to focus on the following key strategies in pursuit of this goal:

***Continue to develop new and innovative products in current end-markets***

We intend to continue to develop and introduce new and innovative products in our current end-markets to improve ride dynamics and performance for our consumers. For example, our patented position-sensitive damping systems provide terrain optimized ride characteristics across many of our product lines. We believe that performance and control are important to our consumer base, and that our frequent introduction of products with innovative and improved technologies increases both OEM and aftermarket demand as consumers seek out products for their vehicles that can deliver these characteristics. We also believe evolving market trends, such as changing bike wheel and tire sizes and increasing adoption rates of off-road capable, on-road trucks should increase demand for vehicles in our end-markets, which, in turn, should increase demand for our suspension products.

***Leverage technology and brand to expand into new categories and end-markets***

We believe we have developed a reputation as a leader in performance-defining products and that our reputation combined with our ability to improve vehicle performance by incorporating performance suspension products and other components results in us frequently being approached by OEM product development teams, athletes and others looking to improve the performance of their vehicles, including in end-markets in which we have not previously offered products. We believe our performance-defining technologies have applications in end-markets in which we do not currently participate in a meaningful way, and we intend to selectively develop products for and forge relationships with customers in additional markets. These markets may include military, recreational vehicles (RVs), and "performance street" cars.

***Opportunistically expand our business platform through acquisitions***

Over the past several years, we have completed acquisitions which we believe enhance our business and strategically expand our product offerings.  In 2014, we acquired the business of Sport Truck, a full-service distributor of aftermarket suspension solutions. Sport Truck designs, markets, and distributes lift kit solutions primarily through its brands, BDS Suspension and Zone Offroad Products. In 2014, we also acquired the businesses of Race Face/Easton. Known for its unique carbon technology, Race Face/Easton designs, manufactures, and distributes performance bike wheels and other performance cycling components including cranks, bars, stems, and seat posts, globally to OEMs and the aftermarket. In 2015, we continued to expand our opportunities through the acquisition of certain assets of Marzocchi’s bike product lines. In November 2017, through our subsidiary FF U.S. Holding Corp. d/b/a ("Tuscany") we acquired the majority interest in the business of Flagship, Inc., a designer, manufacturer and distributor of premium aftermarket powered vehicle performance packages and personal-use specialty vehicles based on OEM vehicle chassis. The Company believes that this acquisition will accelerate the growth of its off-road and on-road truck products.

We also believe that our passionate customer base has a desire for other types of performance products beyond those that attach to a vehicle or bike. We believe there is opportunity to expand our total available market by broadening our acquisition focus to include a more diverse range of performance products that add to or increase our customers' enjoyment of their activities of choice.

Our business development group is responsible for identifying and assessing inorganic and organic potential growth opportunities of our ride dynamics platform and other specialty sports technology platforms. Specifically, our business development group: (i) identifies and assesses potential acquisition opportunities; (ii) aids the business in analyzing growth alternatives; and (iii) manages critical projects and programs as determined by senior management.

***Increase our aftermarket penetration***

We currently have a broad aftermarket distribution network of thousands of retail dealers and distributors worldwide. We intend to further penetrate the aftermarket channel by selectively adding dealers and distributors in certain geographic markets, increasing our internal sales force and strategically expanding aftermarket-specific products and services to existing vehicle platforms.

***Accelerate international growth***

While a significant percentage of our current sales are to OEMs and dealers and distributors located outside the United States, we believe international expansion represents a significant opportunity for us and we have, and intend to continue to, selectively increase infrastructure investments and focus on identified geographic regions. We believe that rising consumer discretionary income in a number of developing markets and increasing consumer preferences for premium, performance bikes and powered vehicles should contribute to increasing demand for our products. In addition, we believe increasing international viewership of racing and extreme sports and other outdoor events, such as the X Games, is contributing to the growth of international participation in activities in which our products are used. We intend to leverage the recognition of our brands to capitalize on these trends by globally increasing our sales to both OEMs and dealers and distributors, particularly in markets where we perceive significant opportunities.

***Improve operating and supply chain efficiencies***

During 2017, we completed the process of moving all bike suspension component manufacturing to our facility in Taichung, Taiwan. In connection with this move, we are using, and expect to continue to use, suppliers that are located closer to our Taichung, Taiwan facility for a number of materials and components. This transition has shortened production lead times to our bike OEM customers, improved supply chain efficiencies, and reduced manufacturing costs. With the transition of all of our bike suspension component manufacturing to Taichung, Taiwan, we have converted the Watsonville manufacturing facility to exclusively manufacture powered vehicle suspension products. We are currently pursuing a number of initiatives to improve efficiencies and achieve cost savings across our North American manufacturing locations including expanding our Powered Vehicles Group manufacturing operations in Hall County, Georgia and relocating our Specialty Sports Group’s U.S. aftermarket bike products distribution, sales, service operations to Reno, Nevada.

### Seasonality

Certain portions of our business are seasonal; we believe this seasonality is due to the delivery of new products. Generally, our quarterly sales have been the lowest in the first quarter and highest in the third quarter of the year. For example, our sales in our first and third quarters of 2018 represented 21% and 28% of our total sales for the year, respectively.

### Competition

The markets for performance-defining products, including suspension components, wheels, and cranks, are highly competitive. We compete with other companies that produce products for sale to OEMs, dealers and distributors, as well as with OEMs which produce their own line of products for their own use. Some of our competitors may have greater financial, research and development or marketing resources than we do. Competition in the high-end segment of the performance-defining market revolves around technical features, performance, product design, innovation, reliability and durability, brand, time to market, customer service and reliable order execution. While the pricing of competing products is always a factor, we believe the performance of our products helps justify our premium pricing. Within our markets, we compete with several large companies and numerous small companies that provide branded and unbranded products across many of our product lines. These competitors can be divided into the following categories:

***Powered Vehicles***

Within the market for powered vehicle suspension components, we compete with several companies in different submarkets. In the snowmobile market we compete with KYB (Kayaba Industry Co., Ltd.), Öhlins Racing AB (a wholly-owned subsidiary of Tenneco), Walker Evans Racing, Works Performance Products, Inc., and Penske Racing Shocks / Custom Axis, Inc. In the ATV and Side-by-Side markets, outside of vertically-integrated OEMs, we compete with ZF Sachs (ZF Friedrichshafen AG), Polaris, and Walker Evans Racing for OEM business and Elka Suspension Inc., Öhlins Racing AB, Works Performance Products, and Penske Racing Shocks / Custom Axis, Inc. for aftermarket business.

Within the market for off-road and specialty vehicle suspension components, we compete with ThyssenKrupp Bilstein Suspension GmbH (commonly known as Bilstein), and King Shock Technology, Inc. (commonly known as King Shocks), Icon Vehicle Dynamics, Sway-A-Way, Pro Comp USA Suspension, and Rancho (Tenneco). In the market for suspension systems, or lift kits, we compete with TransAmerican Wholesale/Pro Comp USA, Rough Country Suspension Systems, TeraFlex, ReadyLIFT Suspension, Tuff Country EZ-Ride Suspension, and Rusty's Off-Road. In the market for up-fitted vehicles, we compete with SCA Performance, Rocky Ridge Trucks, and DSI Custom Vehicles.

***Specialty Sports***

Within the market for bike suspension components, we compete with several companies that manufacture front and rear suspension products, including RockShox (a subsidiary of SRAM Corp.), X-Fusion Shox (a wholly owned subsidiary of A-Pro), Manitou (a subsidiary of HB Performance Systems), SR Suntour, DT Swiss (a subsidiary of Vereinigte Drahtwerke AG), Cane Creek Cycling, DVO Suspension, Bos-Mountain Bike Suspensions, and Öhlins Racing AB. In the market for other bike components, we compete with SRAM, Truvativ and Zipp (all subsidiaries of SRAM Corp.), DT Swiss (a subsidiary of Vereinigte Drahtwerke AG), Mavic (a subsidiary of Amer Sports Corp.), and Shimano.

### Our products

We design and manufacture performance-defining products, of which a significant portion is suspension products. These suspension products dissipate the energy and force generated by bikes and powered vehicles while they are in motion. Suspension products allow wheels or skis (in the case of snowmobiles) to move up and down to absorb bumps and shocks while maintaining contact with the ground for better control. Our products use adjustable suspension, position-sensitive damping, electronically controllable damping, multiple air spring technologies, low weight and structural rigidity, all of which improve user control for greater performance.

We use high-grade materials in our products and have developed a number of sophisticated assembly processes to maintain quality across all product lines. Our suspension products are assembled according to precise specifications throughout the assembly process to create consistently high-performance levels and customer satisfaction.

***Powered Vehicles***

In our powered vehicle product categories, we offer premium products under the FOX, BDS Suspension, Zone Offroad, JKS Manufacturing, RT Pro UTV, 4x4 Posi-Lok, and Tuscany brands for Side-by-Sides, on-road vehicles with and without off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, motorcycles, and commercial trucks. In each of the years ended December 28, 2018, December 29, 2017 and December 30, 2016, approximately 54%, 48% and 44%, respectively, of our sales were attributable to sales of powered vehicles related products.

Products for these vehicles are designed for use on roads, for trail riding, in racing, and to help provide performance and comfort. Our products have also been used on limited quantities of off-road military vehicles and other small-scale select military applications. Our aftermarket truck suspension component products in the powered vehicles category range from two-inch aluminum bolt-on shocks to our patented position sensitive internal bypass shocks. We also offer lift kits and components with our shock products and aftermarket accessory packages for use in trucks. In addition, we up-fit trucks to be off-road capable, on-road vehicles with components and products such as lift kits, shock products, superchargers, interior accessories, wheel, tires, lighting, and body enhancements.

***Specialty Sports***

As a result of our acquisitions in recent years, our bike product offerings have expanded and are used on a wide range of performance mountain bikes and road bikes under the FOX, Race Face, Easton Cycling and Marzocchi brands. Given this wide range of bike products and brands, as well as the potential to expand our offerings to include other types of performance-defining products, we have changed the name of the group from Bike Division to Specialty Sports Group. In each of the years ended December 28, 2018, December 29, 2017 and December 30, 2016, approximately 46%, 52% and 56%, respectively, of our sales were attributable to sales of bike-related products. Primarily for the mountain bike market, we offer mid-end and high-end front fork and rear suspension products designed for cross-country, trail, all-mountain, free-ride and downhill riding. Our mountain bike suspension products are sold in four series and under the Marzocchi brand: (i) our Marzocchi BOMBER series, designed for a rider who values ease of use over adjustability (ii) our FOX Rhythm series, designed to provide FOX performance at the entry price point of the high-end mountain bikes segment (iii) our FOX Performance series, designed for demanding enthusiasts; (iv) our FOX Performance Elite series, designed for experienced and expert riders; and (v) our FOX Factory series, designed for maximum performance at a professional level.

We also offer mountain and road bike wheels and other performance-defining cycling components under the Race Face and Easton Cycling brands including cranks, chainrings, pedals, bars, stems, and seat posts.

**Research and development**

Research and development is at the core of our product innovation and market leadership strategy. We have a growing team of engineers and technicians focused on designing innovative products and developing engineering-based solutions to enhance our product offerings. In addition, a large number of our other employees, many of whom use our products in their recreational activities, contribute to our research and development and product innovation initiatives. Their involvement in the development of new products ranges from participating in initial brainstorming sessions to test riding products in development. Product development also includes collaborating with OEM customers across end-markets, field testing by professional athletes and sponsored race teams and working with enthusiasts and other users of our products. This feedback helps us to develop innovative products which meet our demanding standards as well as the evolving needs of professional and recreational end users and to quickly commercialize these products.

Our research and development activities are supported by state-of-the-art engineering software design tools, integrated manufacturing facilities and a performance testing center equipped to enhance product safety, durability and performance. Our testing center collects data and tests products prior to and after commercial introduction. Suspension products undergo a variety of rigorous performance and accelerated life tests before they are introduced into the market. Research and development expense totaled approximately $25.8 million, $20.2 million and $18.5 million in fiscal years 2018, 2017 and 2016, respectively.

**Intellectual property**

Intellectual property is an important aspect of our business. We rely upon a combination of patents, trademarks, trade names, licensing arrangements, trade secrets, know-how and proprietary technology and we secure and protect our intellectual property rights.

Our intellectual property counsel diligently protects our new technologies with patents and trademarks and defends against patent infringement allegations. We patent our proprietary technologies related to vehicle suspension and other products in the U.S. and various foreign patent offices. Our principal intellectual property also includes our registered trademarks in the U.S. and a number of international jurisdictions, including the marks FOX®, FOX RACING SHOX® and REDEFINE YOUR LIMITS®. Although our intellectual property is important to our business operations and constitutes a valuable asset in the aggregate, we do not believe that any single patent, trademark or trade secret is critical to the success of our business as a whole. We cannot be certain that our patent applications will be issued or that any issued patents will provide us with any competitive advantages or will not be challenged by third parties.

In addition to the foregoing protections, we generally control access to and use of our proprietary and other confidential information using internal and external controls, including contractual protections with employees, OEMs, distributors and others.

## Customers

Our OEM customers include market leaders in their respective categories, and they help define, as well as respond to, consumer trends in their respective industries. These OEM customers include our products on a number of their performance models. We believe OEMs often use our products to improve the marketability and demand of their own products, which, in turn, strengthens our brand image. In addition, consumers select our performance-defining products in the aftermarket channel, where we market through a global network of dealers and distributors. We currently sell to more than 200 OEMs and distribute our products to more than 5,000 retail dealers and distributors worldwide. In 2018, 60% of our sales resulted from sales to OEM customers and 40% resulted from sales to dealers and distributors for resale in the aftermarket channel. No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

Sales attributable to our 10 largest OEM customers, which can vary from year-to-year, collectively accounted for approximately 43%, 42% and 42% of our sales in 2018, 2017 and 2016.

Although we refer to the branded bike OEMs that use our products throughout this document as "our customers," "our OEM customers" or "our bike OEM customers," branded bike OEMs often use contract manufacturers to manufacture and assemble their bikes. As a result, even though we typically negotiate price and volume requirements directly with our bike OEM customers, it is the contract manufacturer that may place the purchase order and therefore assumes the payment responsibilities.

Our North American sales totaled $388.7 million, $280.9 million and $221.3 million, or 63%, 59% and 55% of our total sales in 2018, 2017 and 2016, respectively. Sales outside of North America totaled $230.5 million, $194.8 million and $181.8 million or 37%, 41% and 45% of our total sales in 2018, 2017 and 2016, respectively. Sales attributable to countries outside the United States are based on shipment location. Our international sales, however, do not necessarily reflect the location of the end users of our products, as many of our products are incorporated into bikes and powered vehicles that are assembled at international locations and then shipped back to the United States. Additional information about our product revenues and certain geographical information is available in Note 2 - Revenues, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Additional information regarding our sales, income, and total assets is available in Item 6. "Selected Financial Information."

### *Powered Vehicles*

We sell our powered vehicle-suspension products to OEMs, including Arctic Cat, BRP, Ford, Honda, Jeep, Polaris, Toyota, Triumph and Yamaha. We also are continually nurturing and developing relationships with our existing and new OEMs, as the powered vehicles market continues to grow. After incorporating our products on their powered vehicles, OEMs typically sell their powered vehicles to independent dealers, which then sell directly to consumers.

In the aftermarket, we typically sell to dealers and distributors, both domestically and internationally. Our dealers sell directly to consumers. When we sell to our distributors, they sell to independent dealers, which then sell directly to consumers.

### *Specialty Sports*

We sell our bike suspension and components products to a broad network of domestic and international bike OEMs, including Canyon, Giant, Santa Cruz Bicycles, Scott, Specialized, Trek, Yeti Cycles and YT. We have long-standing relationships with many of the top bike OEMs. After incorporating our products on their bikes, OEMs typically sell their bikes to independent dealers, which then sell directly to consumers.

In the aftermarket, we typically sell to U.S. dealers and through distributors internationally. Our dealers sell directly to aftermarket consumers. Our overseas distributors sell to independent dealers, which then sell directly to consumers.

## Sales and marketing

We employ specialized and dedicated sales professionals. Each sales professional is fully responsible for servicing either OEM or aftermarket customers within our product categories, which ensures that our customers are in contact with capable and knowledgeable sales professionals to address their specific needs. We strongly believe that providing a high level of service to our end customers is essential to maintaining our reputational excellence in the marketplace. Our sales professionals receive training on the brands' latest products and technologies and attend trade shows and events to increase their market knowledge.

Our marketing strategy focuses on strengthening and promoting our brands in the marketplace. We strategically focus our marketing efforts on enthusiasts seeking high-end, performance-defining products and systems through promotions at destination riding locations and individual and team sponsorships. We believe the performance of our products has been demonstrated by, and our brands benefit from, the success of professional athletes who use our products in elite competitive events such as the Union Cycliste Internationale Mountain Bike World Cup and the X Games. We also believe these successes positively influence the purchasing habits of enthusiasts and other consumers seeking performance-defining products.

We believe that our strategic focus on the performance and racing segments in our markets, including our sponsorships of a number of professional athletes and race teams, influences many aspiring and enthusiast consumers and enables our products to be sold at premium price points. In order to continue to enhance our brand image, we will need to maintain our position in the suspension products industry and to continue to provide high-quality products and services.

We have also been able to develop long-term strategic relationships with leading OEMs. Our reputation for performance-defining products plays a critical role in our aftermarket sales to consumers.

In addition to our website and traditional marketing channels, such as print advertising and tradeshows, we maintain an active social media presence, including an Instagram feed, Facebook page, YouTube channel, Vimeo channel and Twitter feed to increase brand awareness, foster loyalty and build a community of users. As strategies and marketing plans are developed for our products, our internal marketing and communications group works to ensure brand cohesion and consistency.

**Manufacturing and backlog**

We manufacture and complete final assembly on most of our products. By controlling the manufacturing process of our products, we can maintain our strict quality standards, customize our machines and processes for the specific requirements of our products, and quickly respond to feedback we receive on our products in development and otherwise. Furthermore, manufacturing our own products enables us to adjust our labor and production inputs to meet seasonal demands and the customized requirements of some of our customers.

During 2018, we moved our corporate headquarters from Scotts Valley, California to our offices in Braselton, Georgia. We also purchased a 23-acre site in Hall County, Georgia to diversify our manufacturing platform and provide additional long-term capacity to support growth in our Powered Vehicles Group. The first phase of the Hall County, Georgia project is expected to be completed in early 2020 and will be used for manufacturing, warehousing, distribution and office space. Our Scotts Valley, California location will remain an essential shared services facility housing certain corporate functions.

In addition, we are also in the process of relocating our aftermarket bike products distribution, sales and service operations from Watsonville and Scotts Valley, California to Reno, Nevada to better serve our customers.

We had approximately $72.9 million and $45.6 million in firm backlog orders at December 28, 2018 and December 29, 2017, respectively. The increase in 2018 backlog, as compared to 2017, was due to normal growth in the business and changes in the seasonality of order placement.

**Suppliers and raw materials**

The primary raw materials used in the production of our products are aluminum, magnesium, carbon and steel. We generally use multiple suppliers for our raw materials and believe that our raw materials are in adequate supply and available from many suppliers at competitive prices. Prices for our raw materials fluctuate from time to time, but historically, price fluctuations have not had a material impact on our business.

We work closely with our supply base, and depend upon certain suppliers to provide raw inputs, such as forgings, castings and molded polymers that have been optimized for weight, structural integrity, wear and cost. In certain circumstances, we depend upon a limited number of suppliers for such raw inputs. We typically have no firm contractual sourcing agreements with our suppliers other than purchase orders.

Miyaki is the exclusive producer of the Kashima coating for our suspension component tubes. As part of our agreement with Miyaki, or the Kashima Agreement, we have been granted the exclusive right to use the trademark "KASHIMACOAT" on products comprising the aluminum finished parts for suspension components (e.g., tubes) and on related sales and marketing material worldwide, subject to a minimum model year order and certain other exclusions. The Kashima Agreement does not contain minimum purchase obligations.

**Employees**

As of December 28, 2018, we had approximately 2,240 full-time employees in the United States, Canada, Europe and Taiwan. We also use part-time employees at our manufacturing facilities to help us meet seasonal demands. None of our employees are subject to collective bargaining agreements.

**Practices related to working capital items**

The Company does not believe that it or the industry in general, has any special practices or special conditions affecting working capital items that are material to understanding our business. Information about the Company’s working capital is incorporated herein by reference to Item 7. "Management’s Discussion and Analysis of Financial Condition" and "Results of Operations," and to the "Consolidated Statements of Cash Flows" within Item 8 of this Annual Report on Form 10-K.

## Government regulation

### *Environmental*

Our manufacturing operations, facilities and properties in the United States, Canada and Taiwan are subject to evolving foreign, international, federal, state and local environmental and occupational health and safety laws and regulations, including those governing air emissions, wastewater discharge and the storage and handling of chemicals and hazardous substances. If we fail to comply with such laws and regulations, we could be subject to significant fines, penalties, costs, liabilities or restrictions on operations, which could negatively affect our financial condition.

We believe that our operations are in compliance, in all material respects, with applicable environmental and occupational health and safety laws and regulations, and our compliance with such laws and regulations has not had, nor is it expected to have, a material impact on our earnings or competitive position. However, new requirements, more stringent application of existing requirements or the discovery of previously unknown environmental conditions could result in material environmental related expenditures in the future.

### *Employment*

We are subject to numerous foreign, federal, state and local government laws and regulations governing our relationships with our employees, including those relating to minimum wage, overtime, working conditions, hiring and firing, non-discrimination, work permits and employee benefits. We believe that our operations are conducted in compliance, in all material respects, with such laws and regulations. We have never experienced a material work stoppage or disruption to our business relating to employee matters. We believe that our relationship with our employees is good.

### *Consumer safety*

We are subject to the jurisdiction of the United States Consumer Product Safety Commission, or the CPSC, and other federal, state and foreign regulatory bodies including the National Highway Traffic Safety Administration, which enforces the Federal Motor Vehicle Safety Standards. Under CPSC regulations, a manufacturer of consumer goods is obligated to notify the CPSC, if, among other things, the manufacturer becomes aware that one of its products has a defect that could create a substantial risk of injury. If the manufacturer has not already undertaken to do so, the CPSC may require a manufacturer to recall a product, which may involve product repair, replacement or refund. During the past three years, we initiated two voluntary product recalls. For additional information, see Item 1A."Risk Factors" below.

## Government contracts

No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

## Financial information about segments and geographic Areas

We operate in one reportable segment: manufacturing, sale and service of performance-defining products. Additional information about our product segment and certain geographic information is available in Note 2 - Revenues of the "Notes to Consolidated Financial Statements" in this Annual Report on Form 10-K.

## Corporate and available information

Our principal executive offices are located at 6634 Hwy 53, Braselton, GA 30517, and our telephone number is (831) 274-6500. Our website address is www.ridefox.com.

We file reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any other filings required by the SEC. We make available through the Investor Relations section of our website, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

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

### Risks related to our business

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

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

Product development requires significant financial, technological and other resources. While we expended approximately $25.8 million, $20.2 million and $18.5 million for our research and development efforts in 2018, 2017 and 2016, respectively, there can be no assurance that this level of investment in research and development will be sufficient in the future to maintain our competitive advantage in product innovation, which could cause our business, financial condition or results of operations to suffer.

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

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

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

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

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

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

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

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

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

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

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

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

During 2018, approximately 46% of our sales were generated from the sale of bike products. Part of our success has been attributable to the growth in the high-end bike industry, including increases in average retail sales prices, as better-performing product designs and technologies have been incorporated into these products. If the popularity of high-end or premium-priced bikes does not increase or declines, the number of bike enthusiasts seeking such bikes or premium priced suspension products, wheels, cranks and other specialty components for their bikes does not increase or declines, or the average price point of these bikes declines, we may fail to achieve future growth or our sales could decrease, and our business, financial condition or results of operations could be negatively affected. In addition, if current bike enthusiasts stop purchasing our products due to changes in preferences, we may fail to achieve future growth or our sales could be decreased, and our business, financial condition or results of operations could be negatively affected.

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

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

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

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

***A disruption in the operations of our facilities, or delays in our planned expansion of certain facilities, could have a negative effect on our business, financial condition or results of operations.***

During 2017, we completed the process of moving all of the manufacturing of our bike suspension component products to our facility in Taichung, Taiwan. In connection with this move, we are utilizing, and expect to continue to use, suppliers who are located closer to our facility in Taichung, Taiwan for a number of materials and components. With the transition of all of our bike suspension component manufacturing to Taichung, Taiwan, we have converted the Watsonville manufacturing facility to be a powered vehicle suspension products manufacturing location exclusively. Additionally, in 2018 we announced the planned construction of our new campus in Hall County, Georgia to further diversify our manufacturing platform and provide additional long-term capacity to support growth in our Powered Vehicles Group. In the future, we may move additional manufacturing operations as we re-balance existing facilities or expand to new manufacturing locations. As a result, we have incurred, and expect to continue to incur, costs associated with some duplication of facilities, equipment and personnel, the amount of which could vary materially from our projections. Significant construction delays or other unforeseen difficulties in our current and future expansion projects, whatever the cause, could have a material adverse effect on our business, customer relationships, financial condition, operating results, cash flow, and liquidity.

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

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

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

***Our business depends substantially on our ability to attract and retain experienced and qualified talent, including our senior management team.***

We are dependent upon the contributions, talent and leadership of our senior management team, particularly our Chief Executive Officer, Larry L. Enterline. We do not have a "key person" life insurance policy on Mr. Enterline or any other key employees. We believe that the top nine members of our senior management team are key to establishing our focus and executing our corporate strategies as they have extensive knowledge of our systems and processes. Given our senior management team's knowledge of our industry and the limited number of direct competitors in the industry, we believe that it could be difficult to find replacements should any of the members of our senior management team leave. We could also be adversely affected if we fail to attract and retain talent throughout our organization. For instance, we rely on skilled and well-trained engineers for the design and production of our products, as well as in our research and development functions. Competition for such individuals is intense, particularly in California where several of our facilities are located. Our inability to attract or retain qualified employees in our design, production or research and development functions or elsewhere in our Company could result in diminished quality of our products and delinquent production schedules or impede our ability to develop new products.

Our failure to adequately address any of these issues could have a material adverse effect on our business, operating results and financial condition.

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

We grew our sales from approximately $475.6 million in 2017 to approximately $619.2 million in 2018. This growth rate may be unsustainable. Our future growth will depend upon various factors, including the strength of the image of our brands, our ability to continue to produce innovative performance-defining products, consumer acceptance of our products, competitive conditions in the marketplace, our ability to make strategic acquisitions, the growth in emerging markets for products requiring high-end suspension products and, in general, the continued growth of the high-end bike and powered vehicle markets into which we sell our products. Our beliefs regarding the future growth of markets for high-end suspension products are based largely on qualitative judgments and limited sources and may not be reliable. If we are unable to sustain our past growth or successfully implement our growth strategy, our business, financial condition or results of operations could be negatively affected.

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

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

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

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

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

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

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

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

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

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

Sales attributable to our five largest OEM customers, which can vary from year to year, collectively accounted for approximately 32%, 32% and 30% of our sales in fiscal years 2018, 2017 and 2016, respectively. The loss of all or a substantial portion of our sales to any of these OEM customers, whether through the temporary or permanent discontinuation of their products which incorporate our products or otherwise, or the loss of market share by these customers could have a material adverse impact on our business, financial condition or results of operations.

***Currency exchange rate fluctuations could impact gross margins and expenses.***

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

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

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

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

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

- difficulty in transporting materials internationally, including labor disputes at West Coast ports, which handle a large amount of our products;
- increased difficulty in protecting our intellectual property rights and trade secrets;
- changes in tax laws and the interpretation of those laws;
- exposure to local economic conditions;

- unexpected government action or changes in legal or regulatory requirements;
- geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war and other political uncertainty;
- changes in tariffs, quotas, trade barriers and other similar restrictions on sales;
- the effects of any anti-American sentiments on our brands or sales of our products;
- increased difficulty in ensuring compliance by employees, agents and contractors with our policies as well as with the laws of multiple jurisdictions, including but not limited to the U.S. Foreign Corrupt Practices Act, local international environmental, health and safety laws, and increasingly complex regulations relating to the conduct of international commerce;
- increased difficulty in controlling and monitoring foreign operations from the United States, including increased difficulty in identifying and recruiting qualified personnel for our foreign operations; and
- increased difficulty in staffing and managing foreign operations or international sales.

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

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

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

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

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

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

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

***If we are unable to enforce our intellectual property rights, our reputation and sales could be adversely affected.***

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

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

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

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

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

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

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

If any of our products are or are alleged to be defective, we may be required to participate in a recall involving such products. Our products and items where our product is incorporated as original equipment on the purchased item are subject to regulation by various agencies, including the National Highway Traffic Safety Administration ("NHTSA"), the U.S. Consumer Product Safety Commission ("CPSC") and similar state and international regulatory authorities. We have had in the past, and may have in the future, recalls (both voluntary and involuntary) of our products or of items that incorporate our products. For example, in October 2016, we initiated a voluntary recall of certain bicycle Float X2 shock absorber products. Most recently, in May 2017, we announced a voluntary recall of approximately 2,460 of FOX's Harley Davidson specific aftermarket motorcycle shock absorbers. In the case of OEM sales, each manufacturer has its own practices regarding product recalls and other product liability actions that could involve its suppliers. Additionally, as suppliers become more integrally involved in the design process and assume a greater role in the overall system design, OEMs could potentially look to to us to share in the cost if faced with recalls and product liability claims.

Although we carry product liability and product recall insurance, no assurance can be made that such insurance will provide adequate coverage against any potential claims, such insurance is available in the appropriate markets or that we will be able to obtain such insurance on acceptable terms in the future. In addition to the direct costs related to these or other recalls, our aftermarket and OEM sales could be adversely affected if we do not have a ready replacement product for such recalled products. Such recall events could also adversely affect our brand image and have a negative effect on our relationships with our OEMs, sponsored athletes and race teams, or otherwise have a negative effect on our business, financial condition or results of operations.

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

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

***Our Second Amended and Restated Credit Facility places operating restrictions on us and creates default risks.***

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

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

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

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

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

In the future, we and our subsidiaries may be able to incur substantial additional debt from further amendments to the Second Amended and Restated Credit Facility, additional lending sources subject to the restrictions contained in the Second Amended and Restated Credit Facility, or as a result of certain debt instruments we may issue.

As of December 28, 2018, we had $59.4 million of indebtedness and $95.0 million in revolving credit available to borrow under the Second Amended and Restated Credit Facility. Our ability to borrow under the Second Amended and Restated Credit Facility fluctuates from time to time due to, among other factors, our borrowings under the facility.

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

- requiring us to dedicate a substantial portion of our cash flows from operations to payments on our debt;
- limiting our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt obligations and other general corporate requirements;

- making us more vulnerable to adverse conditions in the general economy or our industry and to fluctuations in our operating results, including affecting our ability to comply with and maintain any financial tests and ratios required under our indebtedness;
- limiting our flexibility to engage in certain transactions or to plan for, or react to, changes in our business and industry;
- putting us at a disadvantage compared to competitors that have less relative and/or less restrictive debt; and
- subjecting us to additional restrictive financial and other covenants.

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

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

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

As of December 28, 2018, we had $59.4 million of indebtedness, bearing interest at a variable rate, outstanding under the Second Amended and Restated Credit Facility. Recent interest rates in the United States have been at historically low levels, and any increase in these rates would increase our interest expense and reduce our funds available for operations and other purposes. Although from time to time we may enter into agreements to hedge a portion of our interest rate exposure, these agreements may be costly and may not protect against all interest rate fluctuations. Accordingly, we may experience material increases in our interest expense as a result of increases in interest rate levels generally. Based on the $59.4 million of variable interest rate indebtedness that was outstanding as of December 28, 2018, a hypothetical 100 basis point increase or decrease in the interest rate would have resulted in an approximately $0.6 million change to our interest expense for the year ended December 28, 2018.

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

Recently enacted U.S. tax legislation has significantly changed the U.S. federal income taxation of U.S. corporations by reducing the U.S. corporate income tax rate, adopting elements of a territorial tax system, imposing a one-time transition tax (or "deemed repatriation tax") on all undistributed earnings and profits of certain U.S. owned foreign corporations, revising the rules governing net operating losses and the rules governing foreign tax credits, repealing the performance-based compensation exception to the $1 million deduction limit on executive compensation and expanding the scope of employees to whom the limit applies, eliminating the deductibility of certain fringe benefits, permitting immediate expensing of certain capital expenditures, limiting interest deductions, modifying the tax treatment of like kind exchanges, and introducing new anti-base erosion provisions. Many of these changes were effective immediately upon the passage of the legislation, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and will continue to be subject to potential amendments and technical corrections, as well as notices, interpretations and implementation of regulations by the Treasury and Internal Revenue Service ("IRS"), any of which could lessen or increase certain adverse impacts of the legislation. For example, the interpretation the IRS Notice regarding the deduction limitation on executive compensation resulted in a $1.4 million increase in our tax provision in the third quarter of 2018. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities, or how the changes will be viewed by foreign governments.

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

There may be other material adverse effects resulting from the legislation that will become apparent as regulations are issued, and practice evolves through interpretation and case law. While some of the changes made by the tax legislation may adversely affect the Company in one or more reporting periods and prospectively, other changes may be beneficial. We continue to work with our tax advisors to determine the full impact that the recent tax legislation as a whole will have on us.

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

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

As of December 28, 2018, we employed approximately 2,240 full-time employees worldwide, a large percentage of which work at our manufacturing facilities. Our business involves complex manufacturing processes that can be inherently dangerous. Although we employ safety procedures in the design and operation of our facilities, there is a risk that an accident or death could occur in one of our facilities. Also, prior to the introduction of new products, our employees test the products under rigorous conditions, which involve the risk of injury or death. Any accident could result in manufacturing or product delays, which could negatively affect our business, financial condition or results of operations. The outcome of litigation is difficult to assess or quantify and the cost to defend litigation can be significant. As a result, the costs to defend any action or the potential liability resulting from any such accident or death or arising out of any other litigation, and any negative publicity associated therewith, could have a negative effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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

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

***Climate change and related regulatory responses may adversely impact our business.***

There is increasing concern that a gradual increase in global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere will cause significant changes in weather patterns around the globe and an increase in the frequency and severity of natural disasters. Changes in weather patterns and an increased frequency, intensity and duration of extreme weather conditions could, among other things, disrupt the operation of our supply chain, since our bike suspension manufacturing is entirely located in Taiwan, which is prone to typhoons, increase our product costs and impact the types and amounts of products that consumers purchase, since the majority of our products are used in outdoor recreation. As a result, the effects of climate change could have a long-term adverse impact on our business and results of operations.

In many of the countries in which we operate, governmental bodies are increasingly enacting legislation and regulations in response to the potential impacts of climate change. These laws and regulations, which may be mandatory, have the potential to impact our operations directly or indirectly as a result of required compliance by us and our suppliers. In addition, we may choose to take voluntary steps to mitigate our impact on climate change. As a result, we may experience increases in energy, production, transportation and raw material costs, capital expenditures or insurance premiums and deductibles. Inconsistency of legislation and regulations among jurisdictions may also affect the costs of compliance with such laws and regulations. Any assessment of the potential impact of future climate change legislation, regulations or industry standards, as well as any international treaties and accords, is uncertain given the scope of potential regulatory change in the countries in which we operate.

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

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

***We are subject to environmental laws and regulation and potential exposure for environmental costs and liabilities.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***We may incur higher employee costs in the future.***

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

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

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

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

- earthquake, fire, flood, hurricane and other natural disasters;
- power loss, computer systems failure, internet and telecommunications or data network failure; and

- hackers, computer viruses, software bugs or glitches.

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

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

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

***We could be negatively impacted by cybersecurity attacks.***

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

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

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

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

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

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

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

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

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

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

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

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

***Failure of our internal control over financial reporting could adversely affect our business and financial results.***

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

**Risks related to ownership of our common stock**

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

The trading price of our common stock could be volatile, and you could lose all or part of your investment in our common stock. Since our IPO in 2013, our stock price has fluctuated between $76.77 and $13.35 per share and such volatility may continue in the future. Factors affecting the trading price of our common stock could include:

- variations in our operating results or those of our competitors;
- new product or other significant announcements by us or our competitors;
- changes in our product mix;
- changes in consumer preferences;
- fluctuations in currency exchange rates;

- the gain or loss of significant customers;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- changes in general economic conditions as well as conditions affecting our industry in particular; and
- sales of our common stock by us, our significant stockholders or our directors or executive officers.

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

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

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

Our Amended and Restated Certificate of Incorporation authorizes us to issue 90,000,000 shares of common stock, 37,990,546 of which shares were outstanding as of December 28, 2018. In the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with financings, acquisitions, registration statements or otherwise.

After our IPO in 2013, we filed a registration statement under the Securities Act to register shares of our common stock that we may issue under our equity plans. As a result, all such shares can be freely sold in the public market upon issuance, subject to any vesting or contractual lock-up agreements.

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

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

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

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

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

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

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

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

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

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

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

At December 28, 2018, we occupy the following square footage by location:

| | United States | Other Countries | Total |
|---|---|---|---|
| Leased facilities | 412,691 | 200,052 | 612,743 |
| Owned facilities | 233,759 | — | 233,759 |
| Total | 646,450 | 200,052 | 846,502 |

During 2018, we relocated our corporate headquarters from Scotts Valley, California to our offices in Braselton, Georgia. We also purchased a 23-acre site in Hall County, Georgia to diversify our manufacturing platform and provide additional long-term capacity to support growth in our Powered Vehicles Group. The first phase of the Hall County, Georgia project is expected to be completed in early 2020 and will be used for manufacturing, warehousing, distribution and office space.

Certain administrative, research and development and manufacturing operations are located in California. We also manufacture in the U.S. State of Michigan and Indiana, and internationally in Taiwan and Canada, and maintain sales and service offices in the U.S. and Europe.

We believe that our properties are generally suitable to meet our needs for the foreseeable future. In addition, to the extent we require additional space in the future, we believe that it would be readily available on commercially reasonable terms.

## ITEM 3. 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, alleging patent infringement of U.S Patent number 9,291,250 ("'250 Patent"). The Company believes that the lawsuits are without merit and intends to vigorously defend itself. As such, the Company has filed, before the U. S. Patent and Trademark Appeals Board ("PTAB"), for Interparties Reviews ("IPR") of the '027 Patent and separately the same for the '250 Patent. In April 2018, the PTAB issued opinions in the ‘027 Patent petition cases stating that the Company has not shown the claims of the ‘027 Patent to be obvious. Regarding the PTAB ‘027 opinions, the Company has filed an Appeal to the Court of Appeals for the Federal Circuit. Regarding that appeal the Company has further moved the CAFC for remand of the ‘027 IPR to the PTAB. The PTAB has issued an opinion in the ‘250 Patent petition case stating that the Company has not shown the claims of the ‘250 Patent to be obvious.

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

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

### Market Information

Our common stock has been listed on the NASDAQ Global Select Market under the symbol "FOXF" since August 8, 2013. Our IPO was priced at $15.00 per share on August 8, 2013. Prior to that date, there was no public trading market for our common stock.

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the NASDAQ Global Select Market.

| | High | Low |
|---|---|---|
| **Year Ending December 29, 2017** | | |
| Quarter ended March 31, 2017 | $ 28.90 | $ 25.45 |
| Quarter ended June 30, 2017 | 35.60 | 26.70 |
| Quarter ended September 29, 2017 | 43.10 | 35.30 |
| Quarter ended December 29, 2017 | 44.20 | 36.85 |
| **Year Ending December 28, 2018** | | |
| Quarter ended March 30, 2018 | $ 40.20 | $ 34.35 |
| Quarter ended June 29, 2018 | 47.40 | 33.25 |
| Quarter ended September 28, 2018 | 72.10 | 47.75 |
| Quarter ended December 28, 2018 | 75.17 | 50.66 |

On February 24, 2019, the closing price per share of our common stock as reported on the NASDAQ Global Select Market was $61.67 per share.

### Stockholders

As of February 24, 2019, there were approximately 8 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

### Dividend Policy

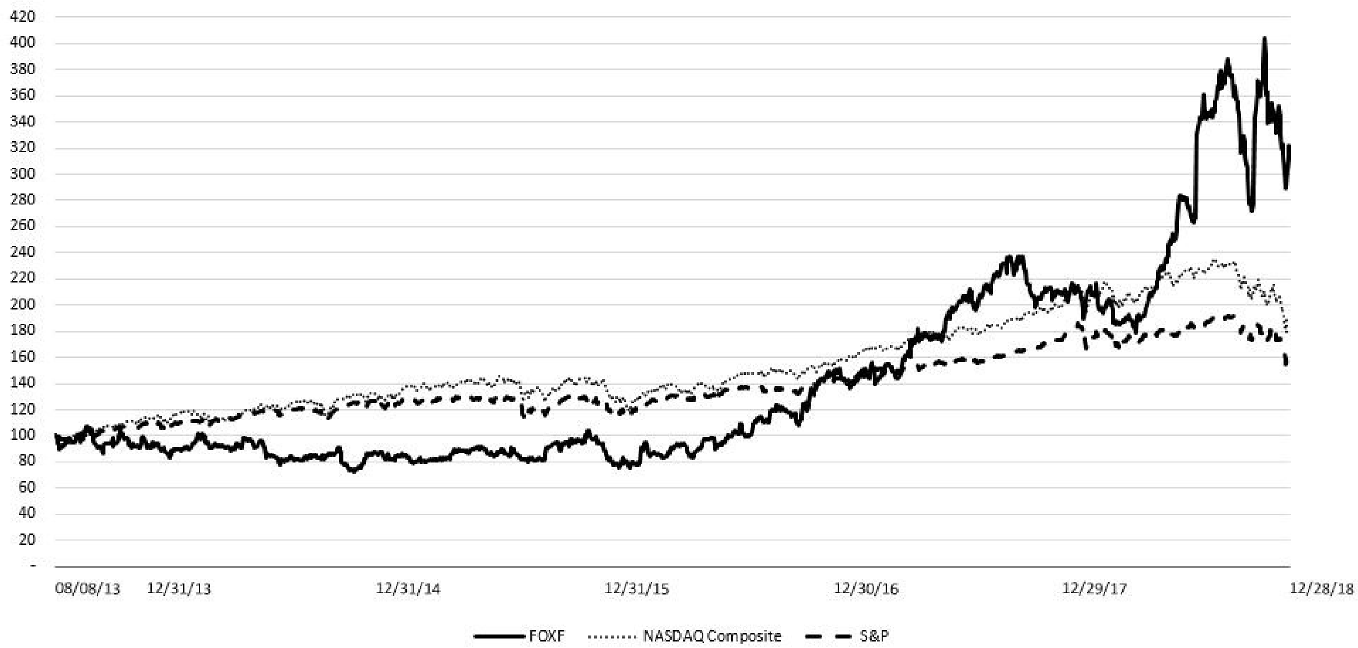
We did not declare or pay any dividends in the years ended December 28, 2018 and December 29, 2017. In addition, our Second Amended and Restated Credit Facility contains covenants limiting our ability to pay dividends to our stockholders. See "Management's Discussion and Analysis of Financial Condition, and Liquidity and Capital Resources - Second Amended and Restated Credit Facility" for additional information. While we currently intend to reinvest our earnings, any future determination to declare cash dividends will be made at the discretion of our Board of Directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions and any other factors that our Board of Directors may deem relevant.

### Equity Compensation Plan Information

For equity compensation plan information refer to Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Annual Report on Form 10-K.

**Performance Graph**

The following graph shows a comparison from August 8, 2013 (the date our common stock commenced trading on the NASDAQ) through December 28, 2018 of the total cumulative return of our common stock with the total cumulative return of the NASDAQ Composite Index (the "NASDAQ Composite") and S&P 500 Index ("S&P 500"). The figures represented below assume an investment of $100 in our common stock at the closing price of $18.61 on August 8, 2013 and in the NASDAQ Composite and S&P 500. Data for the NASDAQ Composite and S&P 500 assume reinvestment of dividends. The comparisons in the graph are historical and are not intended to forecast or be indicative of possible future performance of our common stock.




This performance graph shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act except as shall be expressly set forth by specific reference in such filing.

**Issuer Purchases of Equity Securities**

The table below sets forth information regarding repurchases of our common stock by us during the three months ended December 28, 2018.

| Period | Total Number of Shares Purchased (1) | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs |
|---|---|---|---|
| 9/29 - 11/2 | 637 | $ 53.73 | — |
| 11/3 - 11/30 | 621 | 63.46 | — |
| 12/1 - 12/28 | — | — | — |
| | 1,258 | $ 58.53 | — |

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

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial and other data should be read in conjunction with, and are qualified by reference to, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, and the consolidated balance sheet data as of December 28, 2018 and December 29, 2017 are derived from the audited consolidated financial statements that are included elsewhere in this Annual Report on Form 10-K. We have included, in our opinion, all adjustments, consisting only of normal recurring adjustments that we consider necessary for a fair presentation of the financial information set forth in those statements. The consolidated statements of income data for the years ended December 31, 2015 and 2014 as well as the consolidated balance sheet data as of December 30, 2016, December 31, 2015 and December 31, 2014, are derived from audited consolidated financial statements that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future.

**Consolidated Statement of Income Data:**

| (in thousands, except per share data) | For the fiscal years ended | | | | |
|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** |
| Sales | $619,225 | $475,633 | $403,077 | $366,798 | $306,734 |
| Cost of sales (1) | 413,729 | 321,143 | 276,689 | 254,756 | 212,314 |
| Gross profit | 205,496 | 154,490 | 126,388 | 112,042 | 94,420 |
| Operating expenses: | | | | | |
| Sales and marketing (1) | 37,296 | 27,905 | 25,796 | 23,182 | 19,192 |
| Research and development (1) | 25,847 | 20,178 | 18,459 | 17,001 | 13,642 |
| General and administrative (1) | 41,756 | 34,933 | 27,693 | 21,053 | 17,683 |
| Amortization of purchased intangibles | 6,065 | 2,986 | 2,988 | 8,525 | 6,424 |
| Fair value adjustment of contingent consideration and acquisition-related compensation | — | 1,447 | 5,911 | 6,937 | 2,856 |
| Total operating expenses | 110,964 | 87,449 | 80,847 | 76,698 | 59,797 |
| Income from operations | 94,532 | 67,041 | 45,541 | 35,344 | 34,623 |
| Other expense, net: | | | | | |
| Interest expense | 3,059 | 2,396 | 2,088 | 1,549 | 999 |
| Other expense (income), net | 583 | 360 | 363 | (449) | (693) |
| Total other expense, net | 3,642 | 2,756 | 2,451 | 1,100 | 306 |
| Income before income taxes | 90,890 | 64,285 | 43,090 | 34,244 | 34,317 |
| Provision for income taxes | 5,523 | 21,102 | 7,415 | 9,290 | 6,631 |
| Net income | 85,367 | 43,183 | 35,675 | 24,954 | 27,686 |
| Less: net income attributable to non-controlling interest | 1,327 | 55 | — | — | — |
| Net income attributable to FOX stockholders | $ 84,040 | $ 43,128 | $ 35,675 | $ 24,954 | $ 27,686 |
| Earnings per share: | | | | | |
| Basic | $ 2.22 | $ 1.15 | $ 0.97 | $ 0.67 | $ 0.75 |
| Diluted | $ 2.16 | $ 1.11 | $ 0.94 | $ 0.66 | $ 0.73 |
| Weighted average shares used to compute earnings per share: | | | | | |
| Basic | 37,805 | 37,373 | 36,799 | 36,989 | 36,756 |
| Diluted | 38,956 | 38,738 | 37,801 | 37,894 | 37,807 |

(1) Includes stock-based compensation as follows:

| (in thousands) | For the fiscal years ended 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Cost of sales | $ 482 | $ 429 | $ 139 | $ 82 | $ 43 |
| Sales and marketing | 556 | 587 | 598 | 430 | 279 |
| Research and development | 640 | 442 | 357 | 178 | 88 |
| General and administrative | 5,644 | 7,269 | 5,129 | 4,217 | 3,634 |
| Total | $ 7,322 | $ 8,727 | $ 6,223 | $ 4,907 | $ 4,044 |

**Consolidated Balance Sheet Data:**

| (in thousands) | For the fiscal years ended 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 27,958 | $ 35,947 | $ 35,280 | $ 6,944 | $ 4,212 |
| Inventory | 107,140 | 84,841 | 71,243 | 68,202 | 59,191 |
| Working capital | 135,162 | 116,702 | 95,876 | 57,971 | 48,056 |
| Property, plant and equipment, net | 64,788 | 43,636 | 32,262 | 26,094 | 19,759 |
| Total assets | 485,254 | 428,286 | 335,600 | 277,716 | 258,437 |
| Total debt, including current portion (1) | 59,426 | 98,643 | 66,683 | 47,881 | 50,000 |
| Total stockholders' equity | 321,205 | 234,835 | 184,937 | 152,260 | 128,806 |

(1) In 2014, in connection with our acquisitions, we entered into amendments to our credit facility, borrowing $80.0 million under a secured term loan. In 2016, we entered into the Second Amended and Restated Credit Facility, with a refinanced term loan principal balance of $75.0 million. The principal balance of the term loan was $59.4 million at December 28, 2018.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the section titled "Selected Financial Data" and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report in Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. You should review the "Risk Factors" and "Special Note Regarding Forward-Looking Statements" sections of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### Overview

We are a designer, manufacturer and marketer of performance-defining component products used primarily on bikes, side-by-side vehicles, or Side-by-Sides, on-road vehicles with off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, and motorcycles. We also offer suspension systems, or lift kits, as well as aftermarket accessory packages, used on trucks. Virtually all of our revenues were from our product sales; miscellaneous sources of revenue such as royalty income and service related repair work and the associated sale of components represented less than 1% of our sales in each of the years ended December 28, 2018, December 29, 2017 and December 30, 2016.

We have determined that we operate in one reportable segment, which is the manufacturing, sale and service of performance-defining products. Our products fall into the following two categories:

- bikes; and
- powered vehicles, including Side-by-Sides, certain on-road vehicles with off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, and motorcycles.

A significant portion of our sales are dependent on the demand for high-end or premium-priced bikes and products. In each of the years ended December 28, 2018, December 29, 2017 and December 30, 2016, approximately 46%, 52% and 56%, respectively, of our sales were attributable to sales of bike-related products and approximately 54%, 48% and 44%, respectively, of our sales were attributable to sales of products for powered vehicles.

Our North American sales totaled $388.7 million, $280.9 million and $221.3 million, or 63%, 59% and 55% of our total sales in fiscal years 2018, 2017 and 2016, respectively. Our international sales totaled $230.5 million, $194.8 million and $181.8 million, or 37%, 41% and 45% of our total sales in fiscal years 2018, 2017 and 2016, respectively. Sales attributable to countries outside the United States are based on shipment location. Our international sales, however, do not necessarily reflect the location of the end users of our products as many of our products are incorporated into bikes that are assembled at international locations and then shipped back to the United States. We estimate, based on our internal projections, that approximately one-third of the end users of our products are located outside the United States.

### Opportunities, challenges and risks

We intend to focus on generating sales of our performance-defining products through OEMs and in the aftermarket channel. To do this, we intend to continue to develop and introduce new and innovative products in our current end-markets and we intend to selectively develop products for applications and end-markets in which we do not currently participate. Currently, the majority of our sales are dependent on the demand for performance-defining products.

Our aftermarket distribution network currently consists of more than 5,000 retail dealers and distributors worldwide. To further penetrate the aftermarket channel, we intend to selectively add additional dealers and distributors in certain geographic markets, expand our internal sales force and strategically increase the number of aftermarket specific products and services which we offer for existing vehicle platforms. In addition, we believe international expansion represents a significant opportunity for us and we intend to selectively increase infrastructure investments and focus on identified geographic regions.

As a supplier to OEM customers, we are largely dependent on the success of the business of our OEM customers. Model year changes by our OEM customers may adversely impact our sales or cause our sales to vary from quarter to quarter. Losses in market share or a decline in the overall market of our OEM customers or the discontinuance by our OEM customers of their products which incorporate our products could negatively impact our business and our results of operations.

During 2018, we moved our corporate headquarters from Scotts Valley, California to our offices in Braselton, Georgia. We also purchased a 23-acre site in Hall County, Georgia to diversify our manufacturing platform and provide additional long-term capacity to support growth in our Powered Vehicles Group. The first phase of the Hall County, Georgia project is expected to be completed in early 2020 and will be used for manufacturing, warehousing, distribution and office space. Our Scotts Valley, California location will remain an essential shared services facility housing certain corporate functions.

In addition, we are also in the process of relocating our aftermarket bike products distribution, sales and service operations from Watsonville and Scotts Valley, California to Reno, Nevada to better serve our customers.

From time to time we have experienced, and may continue to experience, warranty costs and claims relating to our products. In the ordinary course of business, we reserve for such costs and claims in our financial statements. There is a risk, however, that in the future we will experience higher than expected warranty costs and claims, as well as other related costs.

We intend to evaluate selective potential acquisition opportunities for performance-defining products and technologies that we believe will help us extend our performance-defining product platform. Any acquisitions that we might make are subject to various risks and uncertainties and could have a negative impact on our results of operations. In addition, we may contractually obligate ourselves to contingent consideration or acquisition related compensation payments in conjunction with such acquisitions, which could have a negative impact on our cash flow and results of operations. See Item 7. "Management’s Discussion and Analysis of Financial Condition and Results of Operations - Contractual obligations and commitments" for additional information.

**Basis of presentation**

***Sales are primarily comprised of:***

Sales from:

- *Product sales:* consist of sales of performance-defining products and systems to customers worldwide. Sales are measured based on the consideration specified in a contract with a customer. We recognize sales when it satisfies a performance obligation by transferring control of a product to a customer, generally at the time of shipment. Contracts are generally in the form of purchase orders and are governed by standard terms and conditions. For larger OEMs, we may also enter into master agreements; and
- *Shipping and handling fees:* consists of shipping and handling fees billed to customers.

Net of:

- *Rebates:* consists of incentives we provide to customers based on sales of eligible products; and
- *Sales returns allowances:* consists of an estimate of our sales returns. This allowance is based upon estimates of the projected returns in future periods based on our experience with returns recorded in previous periods. Sales returns have not been significant to date.

We attribute our past growth in sales predominantly to continued higher demand for on and off-road suspension products, acquisitions, and the success of our current product lines including new products within those lines.

***Cost of sales***

The cost of sales includes the cost of purchased parts and manufactured products (raw materials consumed, the cost to procure materials, labor costs, including wages, and employee benefits, and factory overhead to produce finished good products), including:

- the costs to inspect and repair products;
- shipping costs associated with inbound freight. These costs are capitalized as part of inventory and included in cost of sales as the inventory is sold;
- royalty expenses, including payments to certain parties for our use of licensed technology incorporated into our products;
- freight expenses incurred for certain shipments to customers;
- warranty costs associated with the repair or replacement of products under warranty; and
- reductions in the cost of inventory to its net realizable value, if required, for estimated excess, obsolescence or impaired balances.

***Gross profit/gross margin***

Our gross profit equals our sales minus cost of sales. Our gross margin measures our gross profit as a percentage of sales.

Our gross margins fluctuate based on production volumes, product, customer and channel mix and overall supply chain and manufacturing efficiencies. Generally, we earn higher gross margins on our products sold to the aftermarket channel.

***Operating expenses***

Our operating expenses consist of the following:

- sales and marketing;
- research and development;

- general and administrative;
- amortization of purchased intangibles; and
- fair value adjustment of contingent consideration and acquisition related compensation.

Our sales and marketing expenses include costs related to our 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, promotional materials and products and our sales office costs.

Our research and development expenses consist primarily of salaries and personnel costs, including wages, employee benefits and related stock-based compensation for our 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. We expense research and development costs as incurred and such costs are included as research and development expenses on our consolidated statements of income.

Our general and administrative expenses include costs related to our executive, finance, information technology, business development, human resources and administrative personnel, including wages, employee benefits and related stock-based compensation expenses. We record professional and contract service expenses, occupancy related expenses associated with corporate locations and equipment, and legal expenses in general and administrative expenses.

Our amortization of purchased intangibles includes amortization over their respective useful lives of our purchased intangible assets, such as customer lists and our core technology. Our intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable. No impairments of intangible assets were identified in the years ended December 28, 2018, December 29, 2017 and December 30, 2016.

Our fair value adjustments of contingent consideration and acquisition related compensation related primarily to adjustments to our contingent consideration liability arising from the acquisition of Sport Truck as well as accruals for earn-outs related to our acquisition of Race Face/Easton. Our contingent consideration and acquisition related compensation for the Sport Truck and Race Face/Easton acquisitions have been fully recognized and paid as of December 28, 2018.

***Income from operations***

We define income from operations as gross profit less our operating expenses. We use income from operations as an indicator of the profitability of our business and our ability to manage costs.

***Other expense, net***

Other expense, net consists of interest expense and other (income) expense, net. Interest expense consists of interest charged to us under our credit facility.

Other (income) expense, net consists of foreign currency transaction gains and losses, gains and losses on the disposal of fixed assets, and other miscellaneous items.

***Income taxes***

We are subject to income taxes in the United States and various other foreign jurisdictions in which we do business. Until the enactment of the Tax Cuts and Jobs Act (the "TCJA") in December 2017, these foreign jurisdictions had statutory tax rates that differed significantly from those in the United States. Effective in 2016, we restructured the majority of our international operations to allow for deferral of taxes on indefinitely reinvested international earnings. The TCJA has significantly changed the U.S. federal income taxation of U.S. corporations by reducing the U.S. corporate income tax rate, adopting elements of a territorial tax system, imposing a one-time transition tax (or "deemed repatriation tax") on all undistributed earnings and profits of certain U.S. owned foreign corporations, and revising the rules governing foreign tax credits, among other changes. We asserted permanent reinvestment of the earnings of certain of our foreign subsidiaries in 2016 and 2017, and discontinued this assertion as a result of the enactment of the TCJA. The deemed repatriation tax and the discontinuance of our assertion regarding permanent reinvestment resulted in income tax expense of $3.7 million and $2.0 million, respectively for the year ended December 29, 2017.

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. The reduction in the U.S. corporate tax rate reduced our net deferred tax liability and as a result, our income tax expense for the year ended December 29, 2017 by $2.4 million. Additionally, tax assets arise from various credits for foreign taxes, research and development and other business activities. As of December 28, 2018, our deferred tax assets include foreign tax credits of approximately $23.9 million, which begin to expire in 2025 unless utilized. We also have federal and state research credits of approximately $0.8 million and $2.6 million, respectively. The federal research credits begin to expire in 2037 unless utilized; the state research credits do not expire.

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As of December 28, 2018, we recorded a valuation allowance of $6.6 million, as we anticipate that the TCJA will partially limit our ability to utilize our foreign tax credits. A full valuation allowance was avoided primarily due to the decision to implement a prudent and feasible tax planning strategy to restructure business functions. However, there can be no assurance that we will be able to implement such a plan. In the future, our effective tax rate could vary as we update our assessment of valuation allowances for our deferred tax assets, including those associated with credit carryforwards. It is reasonably possible that we could record a material adjustment to the valuation allowance in the next twelve months as we assess the progress and outcome of our restructuring activities.

Stock-based compensation gives rise to deferred tax assets to the extent of the compensation expense recognized on non-qualified stock options that have not been exercised or expired and restricted stock awards that have not vested. As of December 28, 2018, our deferred tax assets include $1.1 million associated with stock-based compensation expense. We adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting in 2016, and as a result, record the difference between the deferred tax asset and the actual tax deduction for stock-based compensation as a component of our income tax expense. Prior to adoption, such differences were recorded as a component of equity. In the three years ended December 28, 2018, and in future periods, our effective tax rate will vary based on such differences.

We are subject to examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our income tax liabilities and expense. Should actual events or results differ from our current expectations, charges or credits to our income tax liabilities and income tax expense may become necessary. Any such adjustments could have a significant impact on our effective tax rate.

Under U.S. generally accepted accounting principles, or GAAP, an uncertain income tax position will not be recognized unless it has a greater than 50% likelihood (i.e., more likely than not) of being sustained and then, measured only to the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. We established liabilities for uncertain tax positions and deferred taxes associated with the deductibility of certain amortization and depreciation expenses which were incurred as a result of Compass Group Diversified Holdings LLC's acquisition of us in 2008 (the "Compass Acquisition"). The liability for uncertain income tax positions represents the amount of tax we would be required to pay if certain tax deductions previously claimed on tax returns were not allowed upon examination by the taxing authorities. The liability for deferred taxes represents additional taxes that would be payable in future periods because of the potential non-deductibility of future amortization and depreciation expenses.

In 2018, we received a no change letter from the Internal Revenue Service ("IRS") related to the audit of our 2015 federal tax return. Additionally, we entered into a closing agreement with the IRS that resolved the uncertainty about the deductibility of amortization and depreciation arising from the Compass Acquisition for all open tax years. The favorable conclusion resulted in a decrease in the unrecognized tax benefits of $6.2 million, of which $5.6 million favorably impacted the effective tax rate. Including the reversal of the amounts presented as net of deferred tax assets and accrued interest and penalties, the favorable conclusion resulted in a benefit of $9.8 million to the provision for income tax for the year ended December 28, 2018. The deductibility of acquisition related amortization and depreciation for state tax purposes remains uncertain.

For the years ended December 28, 2018, December 29, 2017 and December 30, 2016, we had effective tax rates of 6.1%, 32.8% and 17.2%, respectively. We have concluded certain elements of our international restructuring in response to the TCJA, and expect that certain other changes will be carried out over a number of years. We anticipate that in the near to medium term our effective annual tax rates should be approximately 16% to 19%, subject to the inherent variability resulting from continued interpretation of the TCJA, our ability to restructure our operations to allow for realization of tax credits, changes in the relative proportion of our profits earned in the jurisdictions in which we do business, tax reform in those jurisdictions, and changes in our stock price that impact stock-based compensation tax deductions.

**Results of operations**

The table below summarizes our results of operations for the years ended December 28, 2018, December 29, 2017, and December 30, 2016

| | For the years ended | | |
|---|---|---|---|
| | December 28, | December 29, | December 30, |
| **(in thousands)** | 2018 | 2017 | 2016 |
| Sales | $ 619,225 | $ 475,633 | $ 403,077 |
| Cost of sales | 413,729 | 321,143 | 276,689 |
| Gross profit | 205,496 | 154,490 | 126,388 |
| Operating expenses: | | | |
| Sales and marketing | 37,296 | 27,905 | 25,796 |
| Research and development | 25,847 | 20,178 | 18,459 |
| General and administrative | 41,756 | 34,933 | 27,693 |
| Amortization of purchased intangibles | 6,065 | 2,986 | 2,988 |
| Fair value adjustment of contingent consideration and acquisition-related compensation | — | 1,447 | 5,911 |
| Total operating expenses | 110,964 | 87,449 | 80,847 |
| Income from operations | 94,532 | 67,041 | 45,541 |
| Other expense, net: | | | |
| Interest expense | 3,059 | 2,396 | 2,088 |
| Other expense | 583 | 360 | 363 |
| Total other expense, net | 3,642 | 2,756 | 2,451 |
| Income before income taxes | 90,890 | 64,285 | 43,090 |
| Provision for income taxes | 5,523 | 21,102 | 7,415 |
| Net income | 85,367 | 43,183 | 35,675 |
| Less: net income attributable to non-controlling interest | 1,327 | 55 | — |
| Net income attributable to FOX stockholders | $ 84,040 | $ 43,128 | $ 35,675 |

The following table sets forth statement of income data as a percentage of sales for the years indicated.

| | For the years ended | | |
|---|---|---|---|
| | December 28, 2018 | December 29, 2017 | December 30, 2016 |
| Sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 66.8 | 67.5 | 68.6 |
| Gross profit | 33.2 | 32.5 | 31.4 |
| Operating expenses: | | | |
| Sales and marketing | 6.0 | 5.9 | 6.4 |
| Research and development | 4.2 | 4.2 | 4.6 |
| General and administrative | 6.7 | 7.3 | 6.9 |
| Amortization of purchased intangibles | 1.0 | 0.6 | 0.7 |
| Fair value adjustment of contingent consideration and acquisition-related compensation | — | 0.3 | 1.5 |
| Total operating expenses | 17.9 | 18.3 | 20.1 |
| Income from operations | 15.3 | 14.2 | 11.3 |
| Other expense, net: | | | |
| Interest expense | 0.5 | 0.5 | 0.5 |
| Other expense | 0.1 | 0.1 | 0.1 |
| Other expense, net | 0.6 | 0.6 | 0.6 |
| Income before income taxes | 14.7 | 13.6 | 10.7 |
| Provision for income taxes | 0.9 | 4.4 | 1.8 |
| Net income | 13.8 | 9.2 | 8.9 |
| Less: net income attributable to non-controlling interest | 0.2 | 0.1 | — |
| Net income attributable to FOX stockholders | 13.6% | 9.1% | 8.9% |

***Year ended December 28, 2018 compared to year ended December 29, 2017***

*Sales*

| (in millions) | 2018 | 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| Sales | $ 619.2 | $ 475.6 | $ 143.6 | 30.2% |

Sales for the year ended December 28, 2018 increased approximately $143.6 million, or 30.2%, compared to the year ended December 29, 2017. The sales increase reflects 46.5% growth in Powered Vehicle products as well as a 14.9% increase in Specialty Sports products for the year ended December 28, 2018 compared to the prior year. The increase in sales of Powered Vehicle products was primarily due to continued higher demand for on and off-road suspension products, including increased OEM sales, as well as the inclusion of Tuscany's results. The increase in Specialty Sports product sales is primarily due to the success of our current bike product lines including new products within those lines.

*Cost of sales*

| (in millions) | 2018 | 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| Cost of sales | $ 413.7 | $ 321.1 | $ 92.6 | 28.8% |

Cost of sales for the year ended December 28, 2018 increased approximately $92.6 million, or 28.8%, compared to the year ended December 29, 2017. The increase in cost of sales was driven primarily by an increase in product sales, as well as certain business factors affecting gross margin which are discussed below.

For the year ended December 28, 2018, our gross margin was 33.2% compared to 32.5% for the year ended December 29, 2017. The increase in our gross profit margin was primarily attributable to increase operating leverage on higher volume and improved manufacturing efficiencies.

*Operating expenses*

| (in millions) | 2018 | 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| Operating expenses: | | | | |
| Sales and marketing | $ 37.3 | $ 27.9 | $ 9.4 | 33.7 % |
| Research and development | 25.8 | 20.2 | 5.6 | 27.7 % |
| General and administrative | 41.8 | 34.9 | 6.9 | 19.8 % |
| Amortization of purchased intangibles | 6.1 | 3.0 | 3.1 | 103.3 % |
| Fair value adjustment of contingent consideration and acquisition related compensation | — | 1.4 | (1.4) | (100.0)% |
| Total operating expenses | $ 111.0 | $ 87.4 | $ 23.6 | 27.0 % |

Total operating expenses for the year ended December 28, 2018 increased approximately $23.6 million, or 27.0%, over 2017. When expressed as a percentage of sales, operating expenses decreased to 17.9% of sales for the year ended December 28, 2018 compared to 18.3% of sales in 2017.

Within operating expenses, our sales and marketing expense increased by approximately $9.4 million primarily due to costs incurred at our recently acquired Tuscany subsidiary of $6.9 million, as well as increased headcount and promotional expenses in our existing business lines to expand our marketing team and continue to grow our brand. Research and development increased approximately $5.6 million primarily due headcount investments of $3.3 million, prototyping and equipment costs of $0.9 million, higher patent costs of $0.6 million, costs incurred at Tuscany of $0.2 million, and various other items. General and administrative expenses increased approximately $6.9 million due to higher legal costs related to ongoing litigation of $2.1 million, expenses of $1.7 million incurred at Tuscany, higher facility-related costs of $0.6 million, higher professional fees of $1.3 million related to our ERP project, general legal and compliance costs, consulting resources, and various other items, partially offset by lower acquisition-related expenses.

Amortization of purchased intangible assets for the year ended December 28, 2018 increased by $3.1 million as compared to the year ended December 29, 2017. This increase is due to the amortization of Tuscany's customer relationship assets.

We incurred $1.4 million in acquisition related compensation in connection with management earn-out arrangements during the year ended December 29, 2017. Earn-out arrangements were completed during the fiscal year 2017.

*Income from operations*

| (in millions) | 2018 | 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| Income from operations | $ 94.5 | $ 67.0 | $ 27.5 | 41.0% |

As a result of the factors discussed above, income from operations for the year ended December 28, 2018 increased approximately $27.5 million, or 41.0%, compared to income from operations in the same period in 2017.

*Other expense, net*

| (in millions) | 2018 | 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| Other expense, net: | | | | |
| Interest expense | $ 3.1 | $ 2.4 | $ 0.7 | 29.2% |
| Other expense, net | 0.5 | 0.4 | 0.1 | 25.0% |
| Other expense, net | $ 3.6 | $ 2.8 | $ 0.8 | 28.6% |

Other expense, net for the year ended December 28, 2018 increased by approximately $0.8 million to $3.6 million compared to $2.8 million for the year ended December 29, 2017. The increase in other expense, net is primarily due to a $0.7 million increase in interest expense in the year ended December 28, 2018 due to additional borrowings and higher interest rates as compared to the year ended December 29, 2017.

*Income taxes*

| (in millions) | 2018 | 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| Provision for income taxes | $ 5.5 | $ 21.1 | $ (15.6) | (73.9)% |

Income tax expense for the year ended December 28, 2018 decreased by approximately $15.6 million to $5.5 million compared to income tax expense of $21.1 million in the same period in 2017. The decrease in expense resulted primarily from the decrease in U.S. corporate tax rate, the recognition of $9.8 million in uncertain tax positions incurred as a result of Compass Group Diversified Holdings LLC's acquisition of us in 2008 (the "Compass Acquisition"), and the non-recurrence of transition items related to the TCJA, which resulted in a net expense of $9.3 million in 2017, partially offset by additional taxes associated with a 41.4% increase in pre-tax income and loss of deductibility of certain components of performance-based executive compensation. Additionally, our 2018 income tax expense increased by $3.4 million as a result of a reduction in the excess benefit of stock-based compensation.

The effective tax rates were 6.1% and 32.8% for the years ended December 28, 2018 and December 29, 2017, respectively.

For the year ended December 28, 2018, the difference between our effective tax rate and the 21% federal statutory rate resulted primarily from the favorable result of the uncertain tax position related to the Compass Acquisition, the benefit of excess deductions on stock-based compensation, the benefit of a lower tax rate on U.S. foreign derived earnings, partially offset by non-deductible executive compensation and state taxes.

For the year ended December 29, 2017, the difference between our effective tax rate and the 35% federal statutory rate resulted primarily from the benefit of excess deductions on stock-based compensation, lower rates on foreign earnings, the impact of the TCJA on our net deferred tax liabilities, our research and development credits, and the reversal of our liability for uncertain tax positions as a result of the expiration of the statute of limitations for certain tax filings. These positive rate impacts were partially offset by the valuation allowance on foreign tax credits and the taxes on unremitted foreign earnings as a result of the TCJA.

*Net income*

| (in millions) | 2018 | 2017 | Change ($) | Change (%) |
|---|---|---|---|---|
| Net income | $ 85.4 | $ 43.2 | $ 42.2 | 97.7% |

As a result of the factors described above, our net income increased $42.2 million, or 97.7%, to $85.4 million in the year ended December 28, 2018 from $43.2 million for the same period in 2017.

***Year ended December 29, 2017 compared to year ended December 30, 2016***

*Sales*

| (in millions) | 2017 | 2016 | Change ($) | Change (%) |
|---|---|---|---|---|
| Sales | $ 475.6 | $ 403.1 | $ 72.5 | 18.0% |

Sales for the year ended December 29, 2017 increased approximately $72.5 million, or 18.0%, compared to the year ended December 30, 2016. The sales increase reflects 30.5% growth in powered vehicle products as well as an 8.2% increase in mountain bike products for the year ended December 29, 2017 compared to the prior year. The increase in sales of powered vehicle products was primarily due to continued higher demand for on and off-road suspension products, including increased OEM sales. The increase in bike product sales is primarily due to the success of our current bike product lines including new products within those lines.

*Cost of sales*

| (in millions) | 2017 | 2016 | Change ($) | Change (%) |
|---|---|---|---|---|
| Cost of sales | $ 321.1 | $ 276.7 | $ 44.4 | 16.0% |

Cost of sales for the year ended December 29, 2017 increased approximately $44.4 million, or 16.0%, compared to the year ended December 30, 2016. The increase in cost of sales was driven primarily by an increase in product sales, as well as certain business factors affecting gross margin which are discussed below.

For the year ended December 29, 2017, our gross margin was 32.5% compared to 31.4% for the year ended December 30, 2016. The increase in our gross profit margin was attributable primarily to improved manufacturing efficiencies and favorable product and customer mix.

*Operating expenses*

| (in millions) | 2017 | 2016 | Change ($) | Change (%) |
|---|---|---|---|---|
| Operating expenses: | | | | |
| Sales and marketing | $ 27.9 | $ 25.8 | $ 2.1 | 8.1 % |
| Research and development | 20.2 | 18.5 | 1.7 | 9.2 % |
| General and administrative | 34.9 | 27.7 | 7.2 | 26.0 % |
| Amortization of purchased intangibles | 3.0 | 3.0 | — | — % |
| Fair value adjustment of contingent consideration and acquisition related compensation | 1.4 | 5.9 | (4.5) | (76.3)% |
| Total operating expenses | $ 87.4 | $ 80.9 | $ 6.5 | 8.0 % |

Total operating expenses for the year ended December 29, 2017 increased approximately $6.5 million, or 8.0%, over 2016. When expressed as a percentage of sales, operating expenses decreased to 18.3% of sales for the year ended December 29, 2017 compared to 20.1% of sales in 2016.

Within operating expenses, our sales and marketing expense increased by approximately $2.1 million primarily due to a $1.0 million increase in wages and related expenses, a $0.9 million increase in promotional expenses to support the growth of our products and brands, and an increase of $0.2 million in facility related costs. Research and development increased approximately $1.7 million primarily due to a $1.4 million increase in wages and related expenses, and a $0.3 million increase in equipment and supply related expenses. General and administrative expenses increased approximately $7.2 million primarily as a result of higher incentive compensation of $3.2 million, a $1.5 million increase in litigation related expenses, a $0.8 million increase in acquisition related expenses, a $0.6 million increase in audit fees primarily associated with Sarbanes-Oxley Act compliance, and higher operating costs at our subsidiaries of $1.6 million reflecting our overall growth. These increases were partially offset by a decrease of $0.6 million in ERP implementation related expenses.

Amortization of purchased intangible assets in the year ended December 29, 2017 remained relatively unchanged as compared to the year ended December 30, 2016.

During the year ended December 29, 2017, we incurred $1.4 million in acquisition related compensation in connection with management earn-out arrangements, a decrease of $4.5 million compared to $5.9 million for the year ended December 30, 2016. The decrease is due to the completion of the earn-out arrangements during the current fiscal year.

*Income from operations*

| (in millions) | 2017 | 2016 | Change ($) | Change (%) |
|---|---|---|---|---|
| Income from operations | $ 67.0 | $ 45.5 | $ 21.5 | 47.3% |

As a result of the factors discussed above, income from operations for the year ended December 29, 2017 increased approximately $21.5 million, or 47.3%, compared to income from operations in the same period in 2016.

*Other expense, net*

| (in millions) | 2017 | 2016 | Change ($) | Change (%) |
|---|---|---|---|---|
| Other expense, net: | | | | |
| Interest expense | $ 2.4 | $ 2.1 | $ 0.3 | 14.3% |
| Other expense (income), net | 0.4 | 0.4 | — | —% |
| Other expense, net | $ 2.8 | $ 2.5 | $ 0.3 | 12.0% |

Other expense, net for the year ended December 29, 2017 increased by approximately $0.3 million to $2.8 million compared to $2.5 million for the year ended December 30, 2016. The increase in other expense, net is primarily due to a $0.3 million increase in interest expense in the year ended December 29, 2017 due to additional borrowings and higher interest rates as compared to the year ended December 30, 2016.

*Income tax expense*

| (in millions) | 2017 | 2016 | Change ($) | Change (%) |
|---|---|---|---|---|
| Provision for income taxes | $ 21.1 | $ 7.4 | $ 13.7 | 185.1% |

Income tax expense for the year ended December 29, 2017 increased by approximately $13.7 million to $21.1 million compared to income tax expense of $7.4 million in the same period in 2016. The increase in expense resulted primarily from an increase in pre-tax income of $21.2 million, as well as the impact of TCJA, including a partial valuation allowance of approximately $6.0 million on foreign tax credits for amounts we do not reasonably expect we can utilize through tax planning strategies. Additionally, we incurred a one-time transition tax on unremitted foreign earnings of approximately $3.7 million, and additional state and foreign withholding taxes of approximately $2.0 million, as we no longer assert permanent reinvestment of the earnings of certain of our foreign subsidiaries. The unfavorable impact of the TCJA was offset by a reduction in our net deferred tax liability and income tax expense of approximately $2.4 million due to the decrease in the U.S. corporate income tax rate from 35% to 21%. Additionally, our income tax expense was reduced by $6.0 million as a result of the excess benefit of stock-based compensation.

The effective tax rates were 32.8% and 17.2% for the years ended December 29, 2017 and December 30, 2016, respectively.

For the year ended December 29, 2017, the difference between our effective tax rate and the 35% federal statutory rate resulted primarily from the benefit of excess deductions on stock-based compensation, lower rates on foreign earnings, the impact of the TCJA on our net deferred tax liabilities, our research and development credits, and the reversal of our liability for uncertain tax positions as a result of the expiration of the statute of limitations for certain tax filings. These positive rate impacts were partially offset by the valuation allowance on foreign tax credits and the taxes on unremitted foreign earnings as a result of the TCJA.

For the year ended December 30, 2016, the difference between our effective tax rate and the 35% federal statutory rate resulted primarily from the lower rates on foreign earnings and the reversal of our liability for uncertain tax positions as a result of (i) the conclusion of the Company's 2011 and 2012 California Franchise Tax Board audits and (ii) the expiration of the statute of limitations for certain tax filings. Additionally, our effective tax rate benefited as a result of the research and development tax credits, California business development tax credits, and the benefit of excess deductions on stock-based compensation. These income tax benefits were partially offset by 2016 state taxes and the impact of non-deductible costs.

*Net income*

| (in millions) | 2017 | 2016 | Change ($) | Change (%) |
|---|---|---|---|---|
| Net income | $ 43.2 | $ 35.7 | $ 7.5 | 21.0% |

As a result of the factors described above, our net income increased $7.5 million, or 21.0%, to $43.2 million in the year ended December 29, 2017 from $35.7 million for the same period in 2016.

**Liquidity and Capital Resources**

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

As of December 28, 2018, we held $23.6 million of our $28.0 million of cash and cash equivalents in accounts of our subsidiaries outside of the U.S., which we may pay as dividends, subject to withholding taxes in some jurisdictions. We manage our foreign cash, intercompany payables and intercompany debt to provide a foreign currency hedge against US dollar-denominated trade receivable balances held by our Taiwan location.

A summary of our operating, investing and financing activities are shown in the following table:

| | For the years ended | | |
|---|---|---|---|
| | December 28, | December 29, | December 30, |
| (in thousands) | 2018 | 2017 | 2016 |
| Net cash provided by operating activities | $ 65,392 | $ 48,172 | $ 38,845 |
| Net cash used in investing activities | (30,203) | (70,456) | (12,222) |
| Net cash (used in) provided by financing activities | (43,431) | 22,007 | 1,830 |
| Effect of exchange rate changes on cash | 253 | 944 | (117) |
| (Decrease) increase in cash and cash equivalents | $ (7,989) | $ 667 | $ 28,336 |

We expect that cash on hand, cash flow from operations and availability under our credit facility will be sufficient to fund our operations during the next twelve months from the date of this Annual Report on Form 10-K.

***Operating activities***

Cash provided by operating activities primarily consists of net income, adjusted for certain non-cash items primarily, depreciation and amortization, stock-based compensation, deferred income taxes, and changes in fair value of contingent consideration, offset by net cash invested in working capital.

In the year ended December 28, 2018, cash provided by operating activities was $65.4 million and consisted of net income of $85.4 million plus non-cash items and other adjustments totaling $2.8 million less changes in operating assets and liabilities totaling $22.7 million. Non-cash items and other adjustments consisted primarily of depreciation and amortization of $14.7 million, and stock-based compensation of $7.3 million, offset by a $19.3 million change in deferred taxes. Cash invested in operating assets and liabilities is primarily the result of increases in inventory of $23.0 million, and accounts receivable of $19.0 million, partially offset by increases in accounts payable of $15.2 million, and accrued expenses of $4.2 million. The increases in inventory, accounts receivable, accounts payable and accrued expenses reflect the growth of our business, changes in customer mix and timing, and the expansion of our manufacturing facilities.

In the year ended December 29, 2017, cash provided by operating activities was $48.2 million and consisted of net income of $43.2 million plus non-cash items totaling $17.9 million less changes in operating assets and liabilities and other adjustments totaling $13.0 million. Non-cash items and other adjustments consisted primarily of depreciation and amortization of $10.3 million, and stock-based compensation of $8.7 million, offset by a $1.2 million change in deferred taxes. Cash invested in operating assets and liabilities is primarily the result of increases in inventory of $8.3 million and prepaids and other assets of $6.4 million, and a decrease in accrued expenses of $10.5 million, partially offset by a decrease in accounts receivable of $3.6 million, and increases in accounts payable of $2.2 million and income taxes net payable of $6.4 million. The increases in inventory and accounts payable reflects the growth of our business, and the expansion of our manufacturing facilities. The decrease in accounts receivable reflects changes in customer mix and timing. The decrease in accrued expenses is primarily due to payments of our acquisition related compensation and timing of payments for certain other non-vendor liabilities. The increase in prepaid and other assets is a result of advanced payments to vendors and the timing of insurance and benefits payments. The change in net current income tax accounts is primarily due to timing of estimated tax payments and refunds.

In the year ended December 30, 2016, cash provided by operating activities was $38.8 million and consisted of net income of $35.7 million plus non-cash items totaling $12.3 million less changes in operating assets and liabilities and other adjustments totaling $9.1 million. Non-cash items and other adjustments consisted primarily of depreciation and amortization of $8.8 million, and stock-based compensation of $6.2 million, offset by a $3.0 million change in deferred taxes. Cash invested in operating assets and liabilities is primarily the result of increases in accounts receivable of $17.9 million, inventory of $3.0 million, and prepaids and other assets of $2.1 million, partially offset by increases in accounts payable of $9.6 million, accrued expenses of $2.9 million, and income taxes net payable of $1.5 million. The increase in accounts receivable, inventory, accounts payable and accrued expenses reflects the growth of our business, change in customer mix, and the expansion of our manufacturing facilities. The increase in prepaid and other assets is a result of advanced payments to vendors and the timing of insurance and benefits payments. The change in net current income tax accounts is primarily due to timing of estimated tax payments and refunds.

***Investing activities***

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

In the year ended December 28, 2018, cash used in investing activities was $30.2 million which consisted entirely of property and equipment additions.

In the year ended December 29, 2017, cash used in investing activities was $70.5 million which consisted primarily of $53.6 million invested in the Tuscany acquisition and $16.9 million in property and equipment additions.

In the year ended December 30, 2016, cash used in investing activities was $12.2 million which consisted primarily of $12.0 million in property and equipment additions. Additionally, we invested $0.2 million in acquisitions.

***Financing activities***

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

In the year ended December 28, 2018, net cash used in financing activities was $43.4 million, which consisted primarily of $39.3 million in net payments on our credit facility and $4.1 million in payments to repurchase shares to cover tax withholding related to the vesting of restricted stock awards, net of proceeds from the exercise of stock options.

In the year ended December 29, 2017, net cash provided by financing activities was $22.0 million, which consisted primarily of $31.4 million in net proceeds from our credit facility used to finance acquisitions, partially offset by a payment of $5.4 million in contingent consideration related to our 2014 acquisition of Sport Truck, and $4.0 million in payments to repurchase shares to cover tax withholding related to the vesting of restricted stock awards, net of proceeds from the exercise of stock options.

In the year ended December 30, 2016, net cash provided by financing activities was $1.8 million, which consisted primarily of $17.7 million in net proceeds from our credit facility, partially offset by $7.9 million to repurchase our common stock under a buyback plan authorized in 2016, a payment of $6.9 million in contingent consideration related to our 2014 acquisition of Sport Truck, and $1.0 million in payments to repurchase shares to cover tax withholding related to the vesting of restricted stock awards, net of proceeds from the exercise of stock options.

**Second Amended and Restated Credit Facility**

In August 2013, we entered into the 2013 Credit Facility with Sun Trust Bank and other named lenders. The 2013 Credit Facility provided a revolving line of credit. On March 31, 2014, in connection with our asset purchase of Sport Truck, we amended and restated the 2013 Credit Facility. The Amended and Restated Credit Facility provided a maturing secured term loan in the principal amount of $50.0 million, subject to quarterly amortization payments, and extended the term of the 2013 Credit Facility through March 31, 2019. The proceeds of the term loan were used, in part, to fund the acquisition of Sport Truck and to pay down the revolving line of credit provided under the 2013 Credit Facility. On December 12, 2014, we amended the existing Amended and Restated 2013 Credit Facility. The First Amendment increased the term loan by the principal amount of $30.0 million to a total of $56.8 million, subject to quarterly amortization payments, and extended the maturity of the Amended and Restated 2013 Credit Facility through December 12, 2019. The additional proceeds of the term loan made available through the First Amendment were used to partially fund the acquisition of Race Face/Easton. Additional amendments entered into on May 29, 2015 and March 31, 2016 respectively, made minor technical changes to the Amended and Restated 2013 Credit Facility. On May 11, 2016, we amended and restated the existing Amended and Restated 2013 Credit Facility. Further technical amendments were made on August 11, 2016, June 12, 2017, November 30, 2017 and November 14, 2018 (as most recently amended and restated and as further amended, the "Second Amended and Restated Credit Facility"). The Second Amended and Restated Credit Facility provided a maturing secured term loan in the principal amount of $75.0 million, subject to quarterly amortization payments, increased the availability on the line of credit to $100.0 million, and extended the maturity of the Second Amended and Restated Credit Facility through May 11, 2021.

In the year ended December 28, 2018, we made principal payments of $3.8 million on the term loan and $60.6 million on the revolving line of credit. The Second Amended and Restated Credit Facility is secured by substantially all of our assets, restricts our ability to make certain payments and engage in certain transactions, and also requires that we satisfy customary financial ratios, including a fixed charge coverage ratio of not less than 1.5:1.0 and a leverage ratio of not greater than 3.0:1.0, both ratios calculated as defined in the Second Amended and Restated Credit Facility. Additionally, certain disposal events can trigger prepayments. We were in compliance with the covenants as of December 28, 2018.

**Contractual obligations and commitments**

As of December 28, 2018, we had the following contractual obligations (in thousands):

| Payments due by period | Total | Less than 1 year | 1-3 years | 4-5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-term borrowings | $ 59,687 | $ 7,031 | $ 52,656 | $ — | $ — |
| Operating lease obligations | 19,233 | 5,781 | 8,591 | 2,784 | 2,077 |
| Purchase obligations and other | 3,016 | 3,016 | — | — | — |
| Total | $ 81,936 | $ 15,828 | $ 61,247 | $ 2,784 | $ 2,077 |

As of December 28, 2018, we had a liability of approximately $1.2 million associated with uncertain tax positions, which is classified as a current liability in our consolidated balance sheet because it is reasonably possible that certain federal, foreign, and state tax matters could be concluded in the next twelve months. However, our liability for uncertain tax positions has been excluded from our summary of contractual obligations as we cannot make a reliable estimate of the period of cash settlement with the respective taxing authorities, nor the amount of the final cash settlement. See Note 12 - Income Taxes of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

**Seasonality**

Certain portions of our business are seasonal; we believe this seasonality is due to the delivery of new products. Generally, our quarterly sales have been the lowest in the first quarter and highest in the third quarter of the year. For example, our sales in our first and third quarters of 2018 represented 21% and 28% of our total sales for the year, respectively.

**Off-Balance Sheet Arrangements**

We have no material off-balance sheet arrangements.

**Inflation**

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

## Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, sales, expenses and related disclosures. We evaluate our estimates, judgments, and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions, judgments, and estimates associated with the following have the greatest potential impact on, and are critical to the understanding of, our results of operations: revenue recognition, provision for doubtful accounts receivable, inventory, goodwill and intangible assets, earn-out arrangements, warranty, income taxes and stock-based compensation. For further information see Note 1 - Description of the Business, Basis of Presentation and Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

### *Critical Accounting Policies*

#### *Revenue recognition*

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

Provisions for discounts, rebates, sales incentives, returns, and other adjustments are generally provided for in the period the related sales are recorded, based on management's assessment of historical trends and projection of future results. Certain pricing provisions that provide the customer with future discounts are considered a material right. Such material rights result in the deferral of revenue that are recognized when the rights are exercised by the customer. Measuring the material rights requires judgments including forecasts of future sales and product mix. Effective December 30, 2017, we adopted ASC 606, *Revenue from Contracts with Customers*. Refer to Note 1 - Description of the Business, Basis of Presentation and Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for additional details of this new accounting pronouncement.

#### *Allowance for doubtful accounts*

We record a provision for doubtful accounts deemed not collectible based on historical experience and a detailed assessment of the collectability of our accounts receivable. In estimating the allowance for doubtful accounts, we consider, 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, we estimate if the recoverability of the amounts due could be reduced by a material amount.

#### *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, obsolete or impaired balances.

We regularly monitor inventory quantities on hand and on order and record write-downs for excess and obsolete inventories based on our estimate of the demand for our products, potential obsolescence of technology, product life cycles, and when pricing trends or forecasts indicate that the carrying value of inventory exceeds our estimated selling price. These factors are affected by market and economic conditions, technology changes, and new product introductions and require estimates that may include elements that are uncertain. Actual demand may differ from forecasted demand and may have a material effect on our gross margin. If inventory is written down, a new cost basis will be established that cannot be increased in future periods.

#### *Goodwill, intangible assets and long-lived assets*

*Goodwill*

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. We completed our most recent annual impairment test in the third quarter of 2018 at which time we had a single reporting unit for purposes of assessing goodwill impairment. No impairment charges have been incurred to date.

*Indefinite-lived intangible assets*

Trademarks and tradenames are considered to be indefinite life intangibles, and are not amortized but are subject to testing for impairment annually.

*Finite-lived intangible assets*

We assess the impairment of identifiable finite-lived intangible assets whenever events or changes in circumstances indicate that an asset group's carrying amount may not be recoverable. Recoverability of certain finite-lived intangible assets, particularly customer relationships and core technology, is measured by comparing the carrying amount of the asset group to which the assets are assigned to the sum of the undiscounted estimated future cash flows the asset group is expected to generate. If the asset is considered to be impaired, the amount of such impairment would be measured by the difference between the carrying amount of the asset and its fair value. Recoverability and impairment of other finite-lived intangible assets, particularly developed technology and patents, would be measured by the comparison of the carrying amount of the asset to the sum of undiscounted estimated future product revenues offset by estimated future costs to dispose of the product to which the asset relates. No impairment charges have been incurred to date.

***Warranty***

Unless otherwise required by law, the Company generally offers limited warranties on its products for one to four years. We accrue estimated costs related to warranty activities as a component of cost of sales upon product shipment or when information becomes available indicating that an adjustment to the warranty reserves is appropriate. Management estimates are based upon historical and projected product failure rates and historical costs incurred in correcting product failures. The warranty reserve is assessed from time to time for adequacy and adjusted as necessary for specifically identified warranty exposures. Actual warranty expenses are charged against our estimated warranty liability when incurred. Factors that affect our liability include the number of units, historical and anticipated rates of warranty claims, and the cost per claim. An increase in warranty claims or the related costs associated with satisfying these warranty obligations could increase our cost of sales and negatively affect our operating results.

***Income taxes***

We record our income tax expenses or benefits in each federal, state and foreign jurisdiction in which we operate using an asset and liability approach. This process requires that we compute the current tax expense or benefit and deferred tax expense or benefit, which result from changes in temporary differences between the accounting and tax treatment of assets and liabilities, including items such as accruals and allowances, which are recorded in different periods for financial statement and income tax return purposes. The income tax effects of these differences we identify are classified as long-term deferred tax assets and liabilities in our consolidated balance sheets.

We must also assess the likelihood that deferred tax assets will be realized from future taxable income for each jurisdiction and, based on this assessment establish a valuation allowance, if required. The determination of our valuation allowance involves assumptions, judgments, and estimates, including forecasted earnings, future taxable income of a character necessary to realize the deferred asset, and the relative proportions of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. As a result of the TCJA, we believe that it is more likely than not that a portion of our foreign tax credits will not be realizable, and as such, provided an allowance of $6.0 million. A full valuation allowance was not required primarily due to the decision to implement a prudent and feasible tax planning strategy to restructure business functions such that both U.S. taxable income and foreign sourced income will increase in future years, allowing a portion of the foreign tax credits to be utilized. To the extent we have established a valuation allowance or change the valuation allowance in a period, we reflect the change with a corresponding increase or decrease of our income tax provision in our consolidated statements of income.

Our provision for income tax expense also considers our assertions regarding the indefinite reinvestment of earnings of our foreign subsidiaries. We consider the following matters, among others, in evaluating our plans for indefinite reinvestment: (i) the financial requirements of both the Company and its foreign operations, both for the long term and for the short term; (ii) the ability to manage cash globally through royalty remittances and intercompany loans; (iii) the tax consequences of any decision to reinvest the earnings of foreign subsidiaries, including any changes in U.S. tax law relating to the treatment of these unremitted earnings; and (iv) any U.S. and foreign government programs or regulations relating to the repatriation of these unremitted earnings. As a result of the enactment of the TCJA in December 2017, our unremitted earnings became subject to a transition tax, which we paid with existing foreign tax credits. We therefore no longer consider our unremitted earnings to be permanently reinvested.

Additionally, our judgments, assumptions, and estimates relative to the provision for income taxes take into account enacted tax laws, our interpretation of enacted tax laws, and possible outcomes of current and future audits conducted by tax authorities. Changes in tax laws, such as those brought about by the TCJA, or our interpretation of tax laws, and the resolution of future tax audits could significantly impact the amounts provided for income taxes in our consolidated balance sheets and consolidated statements of income.

As permitted by SAB 118, we made reasonable estimates of the effects the TCJA where uncertainty existed, recognizing provisional amounts in our provision for income taxes for the year ended December 29, 2017 for all items for which we were able to determine a reasonable estimate. In cases where a reasonable estimate was not possible, including the remeasurement of deferred tax assets and liabilities and the one-time transition tax, we continued to apply 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 impact of the TCJA differed from the 2017 estimates during the one-year measurement period permitted by SAB 118 due to, among other things, further refinement of our calculations, changes in interpretations and assumptions we made, and guidance that has been issued. We completed our accounting for the enactment-date income tax effects of the TCJA in 2018, recording net adjustments of $264, or 0.3% of pretax income. Our estimates may continue to be affected as interpretations of the law through regulations and as common practices emerge.

We account for uncertain tax positions utilizing a two-step approach to recognize and measure those positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. We adjust liabilities for our uncertain tax positions due to changing facts and circumstances, such as the closing of a tax audit, expiration of a statute of limitations for assessment of income tax, the refinement of estimates, or the realization of earnings or deductions that differ from our estimates. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will impact our tax provision in our consolidated statements of income in the period in which such determination is made.

As of December 28, 2018 and December 29, 2017, we had $2.0 million and $8.2 million of unrecognized tax benefits, respectively. In 2018, we received a no change letter from the IRS related to the audit of our 2015 federal tax return. Additionally, we entered into a closing agreement with the IRS that resolved the uncertainty about the deductibility of amortization and depreciation arising from the Compass Acquisition for all open tax years. The favorable conclusion resulted in a decrease in the unrecognized tax benefits of $6.2 million, of which $5.6 million favorably impacted the effective tax rate. Including the reversal of the amounts presented as net of deferred tax assets and accrued interest and penalties, the favorable conclusion resulted in a benefit of $9.8 million to the provision for income tax for the year ended December 28, 2018. The deductibility of acquisition related amortization and depreciation for state tax purposes remains uncertain.

Interest and penalties associated with income taxes are recorded as income tax expense in our consolidated statements of income.

***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 determination of the grant date fair value of options using an option pricing model is affected by our common stock fair value as well as assumptions including our expected stock price volatility over the expected term of the options, stock option exercise and cancellation behaviors, risk-free interest rates and expected dividends.

Prior to our IPO in August of 2013, our Board of Directors considered numerous objective and subjective factors to determine the fair market value of our common stock at each meeting at which stock options were granted and approved.

Stock-based compensation expenses are classified in the statements of income based on the department to which the related employee reports. Our stock-based awards subsequent to our IPO have been comprised principally of restricted stock unit awards.

***Fair value measurement and financial instruments***

ASC 820, *Fair Value Measurements and Disclosures*, requires the valuation of assets and liabilities required or permitted to be either recorded or disclosed at fair value based on hierarchy of available inputs as follows:

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

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

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

As of December 28, 2018, we used Level 2 inputs to determine the fair value of our Second Amended and Restated Credit Facility because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio.

As of December 28, 2018, we used Level 3 inputs to determine the fair value of our 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, we 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. The Level 3 methodology we expect to use to estimate the fair value of the non-controlling interests subject to these put provisions will be based on an average multiple of earnings, taking into consideration historical earnings and other factors.

**Recent Accounting Pronouncements**

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

The Company adopted this guidance as of the beginning of the first quarter of fiscal year 2018 using the modified retrospective implementation method. The Company applied the guidance to all open contracts at the date of initial application. Additionally, the Company used the practical expedient to omit the disclosure of remaining performance obligations for contracts with an original expected duration of one year or less. The primary impact of adopting the standard resulted from certain pricing provisions within contracts that provide the customer with a material right. Under the new standard, revenue attributed to such pricing provisions is deferred and recognized when the right is exercised by the customer. The Company recorded a cumulative effect adjustment of $0.4 million gross and $0.3 million net of taxes to the opening balance of retained earnings to reflect the cumulative effect of the adoption of the standard.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the existing guidance for lease accounting. This ASU will require lessees to recognize leases with durations greater than 12 months on the balance sheet. This guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. The Company will adopt the new standard on December 29, 2018 with a cumulative-effect adjustment to the opening balance of retained earnings at that date with no restatement of comparative periods' financial information ("current-period adjustment method"), as recently allowed by the FASB. Additionally, the Company will adopt practical expedients with respect to the assessment of embedded leases, lease classification, and initial indirect costs for expired and existing leases, and has not adopted the hindsight practical expedient. The Company is substantially complete with the process of identifying the appropriate changes to its accounting policies, business processes, and related internal controls to support the recognition and disclosure of this requirement. The Company estimates that the impact of recording the right-of-use operating lease assets and operating lease liabilities on the consolidated balance sheet will be $14.0 million. The Company does not expect that the adoption of ASU 2016-02 will have a material impact on its results of operations or cash flows.

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

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

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

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

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other: Internal-Use Software, which helps simplify how entities evaluate the accounting for costs paid by a customer in a cloud computing arrangement that is a service contract. This standard will be effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest rate sensitivity

We are exposed to market risk in the normal course of our business operations due to our ongoing investing and financing activities. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies and procedures governing our management of market risks and the use of financial instruments to manage exposure to such risks. We generally do not hedge our interest rate exposure. We had $59.4 million of debt, bearing interest at a variable rate, outstanding under our Second Amended and Restated Credit Facility as of December 28, 2018. A hypothetical 100 basis point increase or decrease in the interest rate on our variable debt would have resulted in an approximately $0.6 million change to our interest expense for the year ended December 28, 2018.

### Exchange rate sensitivity

As of December 28, 2018, we are exposed to changes in foreign currency exchange rates. While historically this exposure to changes in foreign currency exchange rates has not had a material effect on our financial condition or results of operations, foreign currency fluctuations could have an adverse effect on our business and results of operations in the future. Historically, our primary exposure has been related to transactions denominated in the Euro, New Taiwanese Dollar, and Canadian Dollar. The majority of our sales, both domestically and internationally, are denominated in U.S. Dollars. Historically, the majority of our expenses have also been in U.S. Dollars and we have been somewhat insulated from currency fluctuations. As a growing percentage of our activities are expected to be denominated in foreign currencies, we may be exposed to greater exchange rate sensitivity in the future. Currently, we do not hedge our foreign currency exposure; however, we may consider strategies to mitigate our foreign currency exposure in the future if deemed necessary.

**Credit and other risks**

We are exposed to credit risk associated with cash and cash equivalents and trade receivables. As of December 28, 2018, the majority of our cash and cash equivalents consisted of cash balances in non-interest bearing checking accounts which significantly exceed the insurance coverage provided on such deposits. We do not believe that our cash equivalents present significant credit risks because the counterparties to the instruments consist of major financial institutions. Substantially all trade receivable balances of our businesses are unsecured. The credit risk with respect to trade receivables is concentrated by the number of significant customers that we have in our customer base and a prolonged economic downturn could increase our exposure to credit risk on our trade receivables. To manage our exposure to such risks, we perform ongoing credit evaluations of our customers and maintain an allowance for potential credit losses.

We do not currently hedge our exposure to increases in the prices for our primary raw materials.

## 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.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, 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 28, 2018. Based on the evaluation of our disclosure controls and procedures as of December 28, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**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 28, 2018 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 9B. OTHER INFORMATION.

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item regarding our directors and executive officers is incorporated by reference to the sections of our proxy statement to be filed with the SEC in connection with our 2019 Annual Meeting of Stockholders (the "Proxy Statement") entitled "Election of Class II Directors" and "Corporate Governance."

Information required by this Item regarding our corporate governance, including our audit committee and code of business conduct and ethics, is incorporated by reference to the sections of the Proxy Statement entitled "Corporate Governance" and "The Board of Directors."

Information required by this Item regarding compliance with Section 16(a) of the Exchange Act required by this Item is incorporated by reference to the section of the Proxy Statement entitled "Section 16(a) Beneficial Ownership Reporting Compliance."

### ITEM 11. EXECUTIVE COMPENSATION

Information required by this item regarding executive compensation is incorporated by reference to the information set forth under the captions "Executive Compensation," "Director Compensation" and "Corporate Governance" in our Proxy Statement.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the section of the Proxy Statement entitled "Security Ownership of Certain Beneficial Owners and Management."

Information required by this item regarding securities authorized for issuance under our equity compensation plans is incorporated by reference to the information set forth under the caption "Executive Compensation" in our Proxy Statement.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item is incorporated by reference to the section of the Proxy Statement entitled "Certain Relationships and Related Transactions and Director Independence."

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this Item is incorporated by reference to the section of the Proxy Statement entitled "Ratification of Appointment of Independent Registered Public Accounting Firm."

## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements



(b) Exhibits

See "Index to Exhibits" 54

## Index to Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | Filed Herewith |
|---|---|---|---|---|---|
| | | Form | File No. | Filing Date | |
| 3.1 | Amended and Restated Certificate of Incorporation | 10-Q | 001-36040 | September 19, 2013 | |
| 3.2 | Amended and Restated Bylaws | 10-Q | 001-36040 | September 19, 2013 | |
| 4.1 | Form of Common Stock Certificate. | S-1 | 333-189841 | July 8, 2013 | |
| 4.3 | Form of Indenture dated March 31, 2015 | S-3 | 333-203146 | March 31, 2015 | |
| 10.1† | Employment Agreement, dated July 22, 2013, by and between Fox Factory Holding Corp. and Larry L. Enterline. | S-1 | 333-189841 | July 25, 2013 | |
| 10.2† | Employment Agreement, dated July 22, 2013, by and between Fox Factory Holding Corp. and Zvi Glasman. | S-1 | 333-189841 | July 25, 2013 | |
| 10.3† | Employment Agreement, dated February 20, 2014, by and between Fox Factory Holding Corp. and Bill Katherman. | 8-K/A | 001-36040 | June 17, 2014 | |
| 10.4† | Employment Agreement, dated January 26, 2015, by and between Fox Factory Holding Corp. and Tom Wittenschlaeger. | 10-Q | 001-36040 | May 4, 2016 | |
| 10.5† | Employment Agreement, dated August 29, 2013, by and between Fox Factory Holding Corp. and Wes Allinger. | 10-Q | 001-36040 | May 4, 2016 | |
| 10.6† | 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 | |
| 10.7† | 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 | |
| 10.8† | 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 | |
| 10.9† | 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 | |
| 10.10† | 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 | |
| 10.11† | Amendment and Restated, dated May 1, 2018, to the Employment Agreement, dated August 29, 2013, by and between Fox Factory Holding Corp. and Wes Allinger. | 10-Q | 001-36040 | May 5, 2018 | |
| 10.12† | Amendment, dated June 26, 2018, to the Employment Agreement, dated January 26, 2015, by and between Fox Factory Holding Corp. and Tom Wittenschlaeger. | 8-K | 001-36040 | June 26, 2018 | |
| 10.13† | Amendment, dated January 1, 2019, to the Employment Agreement, dated January 26, 2015, by and between Fox Factory Holding Corp. and Tom Wittenschlaeger. | 8-K | 001-36040 | January 1, 2019 | |

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| 10.14† | Employment Agreement, dated May 1, 2018, by and between Fox Factory Holding Corp. and Chris Tutton. | | | | X |
| 10.15† | Employment Agreement, dated August 29, 2018, by and between Fox Factory Holding Corp. and Mike C. Dennison. | | | | X |
| 10.16† | 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 wholly-owned subsidiary, Fox Factory, Inc. | 10-Q | 001-36040 | November 6, 2013 | |
| 10.17† | Non-Employee Director Compensation Policy. | S-1 | 333-189841 | July 25, 2013 | |
| 10.18† | Form of Indemnification Agreement between Fox Factory Holding Corp. and certain of its officers, directors and/or advisors. | 10-Q | 001-36040 | October 31, 2018 | |
| 10.19† | Form of Indemnification Agreement between Fox Factory Holding Corp. and Elias Sabo and certain advisors. | S-1 | 333-189841 | July 8, 2013 | |
| 10.20† | 2008 Stock Option Plan, as amended. | S-1 | 333-189841 | July 8, 2013 | |
| 10.21† | 2008 Non-Statutory Stock Option Plan, as amended. | S-1 | 333-189841 | August 2, 2013 | |
| 10.22† | 2013 Omnibus Plan. | S-1 | 333-189841 | July 29, 2013 | |
| 10.23† | 2013 Omnibus Plan as amended by the First Amendment, approved by stockholders on May 4, 2017. | 8-K | 001-36040 | May 8, 2017 | |
| 10.24† | Form of Restricted Stock Unit Award Agreement under 2013 Omnibus Plan. | S-1 | 333-189841 | July 25, 2013 | |
| 10.24.1† | 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 | |
| 10.24.2† | 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 | |
| 10.25 | 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 | |
| 10.26 | 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 | |
| 10.27 | 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 | |
| 10.28 | 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 | |
| 10.29 | 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 | |

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| 10.29.1 | 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 | |
| 10.29.2 | 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-Q | 001-36040 | November 16, 2015 | |
| 10.31 | 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 | |
| 10.32 | 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 | |
| 10.33 | Second Amended and Restated Revolving Credit and Term Loan Agreement, dated May 11, 2016. | 8-K | 001-36040 | May 16, 2016 | |
| 10.33.1 | First Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement, dated August 11, 2016. | 10-Q | 001-36040 | November 2, 2016 | |
| 10.33.2 | Second Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement dated June 12, 2017. | 10-Q | 001-36040 | August 3, 2017 | |
| 10.33.3 | Third Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement dated November 30, 2017. | 8-K | 001-36040 | December 4, 2017 | |
| 10.33.4 | Fourth Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement dated November 14, 2018. | | | | X |
| 21.1 | List of Subsidiaries. | | | | X |
| 22.1 | Consent of Independent Registered Public Accounting Firm. | | | | X |
| 23.1 | Power of Attorney (contained in signature page to this Annual Report on Form 10-K). | | | | X |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended. | | | | X |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended. | | | | X |
| 32.1* | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended. | | | | X |
| 32.2* | 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 |

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|---|---|---|
| 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.

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| | By: | /s/ Zvi Glasman |
| February 26, 2019 | | **Zvi Glasman, Chief Financial Officer and Treasurer** |
| | | **(Principal Financial and Accounting Officer & Duly Authorized Signatory)** |

## POWER OF ATTORNEY

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

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

| Signature | Title | Date |
|---|---|---|
| /s/ Larry L. Enterline<br>Larry L. Enterline | Chief Executive Officer and Director<br>(*Principal Executive Officer*) | February 26, 2019 |
| /s/ Zvi Glasman<br>Zvi Glasman | Chief Financial Officer and Treasurer<br>(*Principal Financial and Accounting Officer)* | February 26, 2019 |
| /s/ Dudley Mendenhall<br>Dudley Mendenhall | Chairman | February 26, 2019 |
| /s/ Michael Dennison<br>Michael Dennison | Director and President, Powered Vehicles Group | February 26, 2019 |
| /s/ Tom Duncan<br>Tom Duncan | Director | February 26, 2019 |
| /s/ Elizabeth A. Fetter<br>Elizabeth A. Fetter | Director | February 26, 2019 |
| /s/ Ted Waitman<br>Ted Waitman | Director | February 26, 2019 |

### 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, 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 28, 2018.

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 26, 2019

/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.
Braselton, Georgia

**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 28, 2018 and December 29, 2017, the related consolidated statements of income, comprehensive income, stockholders' equity and redeemable noncontrolling interest, and cash flows for each of the three years in the period ended December 28, 2018, 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 28, 2018 and December 29, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2018, 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 28, 2018, 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 26, 2019 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 26, 2019

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Fox Factory Holding Corp.
Braselton, Georgia

### 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 28, 2018, 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 28, 2018, 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 28, 2018, and our report dated February 26, 2019 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.

### 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 26, 2019

# FOX FACTORY HOLDING CORP.
## Consolidated Balance Sheets
## (in thousands, except par value)

| | December 28, 2018 | December 29, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 27,958 | $ 35,947 |
| Accounts receivable (net of allowances of $600 and $676 at December 28, 2018 and December 29, 2017, respectively) | 78,882 | 61,060 |
| Inventory | 107,140 | 84,841 |
| Prepaids and other current assets | 17,967 | 18,055 |
| Total current assets | 231,947 | 199,903 |
| Property, plant and equipment, net | 64,788 | 43,636 |
| Deferred tax assets | 15,328 | 2,669 |
| Goodwill | 88,850 | 88,438 |
| Intangibles, net | 83,974 | 90,044 |
| Other assets | 367 | 551 |
| Total assets | $ 485,254 | $ 425,241 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 55,086 | $ 40,813 |
| Accrued expenses | 33,607 | 29,563 |
| Reserve for uncertain tax positions | 1,169 | 7,787 |
| Current portion of long-term debt | 6,923 | 5,038 |
| Total current liabilities | 96,785 | 83,201 |
| Line of credit | — | 35,585 |
| Long-term debt, less current portion | 52,503 | 58,020 |
| Deferred rent | 479 | 645 |
| Total liabilities | 149,767 | 177,451 |
| Commitments and contingencies (Refer to Note 9 - Commitments and Contingencies) | | |
| Redeemable non-controlling interest | 14,282 | 12,955 |
| Stockholders' equity | | |
| Preferred stock, $0.001 par value — 10,000 authorized and no shares issued or outstanding as of December 28, 2018 and December 29, 2017 | — | — |
| Common stock, $0.001 par value — 90,000 authorized; 38,881 shares issued and 37,991 outstanding as of December 28, 2018; 38,497 shares issued and 37,607 outstanding as of December 29, 2017 | 38 | 38 |
| Additional paid-in capital | 116,019 | 112,793 |
| Treasury stock, at cost; 890 common shares as of December 28, 2018 and December 29, 2017 | (13,754) | (13,754) |
| Accumulated other comprehensive loss | (784) | (168) |
| Retained earnings | 219,686 | 135,926 |
| Total stockholders' equity | 321,205 | 234,835 |
| Total liabilities, redeemable non-controlling interest and stockholders' equity | $ 485,254 | $ 425,241 |

*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 28, 2018 | December 29, 2017 | December 30, 2016 |
| Sales | $ 619,225 | $ 475,633 | $ 403,077 |
| Cost of sales | 413,729 | 321,143 | 276,689 |
| Gross profit | 205,496 | 154,490 | 126,388 |
| Operating expenses: | | | |
| Sales and marketing | 37,296 | 27,905 | 25,796 |
| Research and development | 25,847 | 20,178 | 18,459 |
| General and administrative | 41,756 | 34,933 | 27,693 |
| Amortization of purchased intangibles | 6,065 | 2,986 | 2,988 |
| Fair value adjustment of contingent consideration and acquisition-related compensation | — | 1,447 | 5,911 |
| Total operating expenses | 110,964 | 87,449 | 80,847 |
| Income from operations | 94,532 | 67,041 | 45,541 |
| Other expense, net: | | | |
| Interest expense | 3,059 | 2,396 | 2,088 |
| Other expense | 583 | 360 | 363 |
| Other expense, net | 3,642 | 2,756 | 2,451 |
| Income before income taxes | 90,890 | 64,285 | 43,090 |
| Provision for income taxes | 5,523 | 21,102 | 7,415 |
| Net income | 85,367 | 43,183 | 35,675 |
| Less: net income attributable to non-controlling interest | 1,327 | 55 | — |
| Net income attributable to Fox stockholders | $ 84,040 | $ 43,128 | $ 35,675 |
| Earnings per share: | | | |
| Basic | $ 2.22 | $ 1.15 | $ 0.97 |
| Diluted | $ 2.16 | $ 1.11 | $ 0.94 |
| Weighted average shares used to compute earnings per share: | | | |
| Basic | 37,805 | 37,373 | 36,799 |
| Diluted | 38,956 | 38,738 | 37,801 |

*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 28, 2018 | December 29, 2017 | December 30, 2016 |
| Net income | $ 85,367 | $ 43,183 | $ 35,675 |
| Other comprehensive (loss) income | | | |
| Foreign currency translation adjustments, net of tax effects | (616) | 2,025 | (240) |
| Other comprehensive (loss) income | (616) | 2,025 | (240) |
| Comprehensive income | 84,751 | 45,208 | 35,435 |
| Less: comprehensive income attributable to non-controlling interest | 1,327 | 55 | — |
| Comprehensive income attributable to Fox stockholders | $ 83,424 | $ 45,153 | $ 35,435 |

*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, 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 |
| 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 |
| Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding | 384 | — | — | — | (4,096) | — | — | (4,096) | — |
| Stock-based compensation expense | — | — | — | — | 7,322 | — | — | 7,322 | — |
| Foreign currency translation adjustment | — | — | — | — | — | (616) | — | (616) | — |
| Adoption of new accounting standard, net of taxes | | | | | | | (280) | (280) | |
| Net Income | — | — | — | — | — | — | 84,040 | 84,040 | 1,327 |
| **Balance- December 28, 2018** | 38,881 | $ 38 | 890 | $ (13,754) | $ 116,019 | $ (784) | $ 219,686 | $ 321,205 | $ 14,282 |

*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 28, 2018 | December 29, 2017 | December 30, 2016 |
| OPERATING ACTIVITIES: | | | |
| Net income | $ 85,367 | $ 43,183 | $ 35,675 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 14,729 | 10,280 | 9,025 |
| Cost of goods on acquired inventory step up | — | 248 | 212 |
| Stock-based compensation | 7,322 | 8,727 | 6,223 |
| Deferred taxes and uncertain tax positions | (19,286) | (1,160) | (3,016) |
| Change in fair value of contingent consideration | — | (150) | (229) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (19,034) | 3,554 | (17,862) |
| Inventory | (22,998) | (8,322) | (2,991) |
| Income taxes payable | 281 | 6,421 | 1,467 |
| Prepaids and other assets | (377) | (6,378) | (2,089) |
| Accounts payable | 15,193 | 2,243 | 9,610 |
| Accrued expenses | 4,195 | (10,474) | 2,820 |
| Net cash provided by operating activities | 65,392 | 48,172 | 38,845 |
| INVESTING ACTIVITIES: | | | |
| Acquisition of businesses | — | (53,592) | (198) |
| Purchases of property and equipment | (30,203) | (16,864) | (12,024) |
| Net cash used in investing activities | (30,203) | (70,456) | (12,222) |
| FINANCING ACTIVITIES: | | | |
| Proceeds from line of credit | 25,000 | 42,120 | 29,500 |
| Payments on line of credit | (60,585) | (7,000) | (12,500) |
| Payment of contingent consideration liability | — | (5,382) | (6,889) |
| Proceeds from issuance of debt, net of origination fees | — | — | 9,222 |
| Repayment of debt | (3,750) | (3,750) | (8,522) |
| Cash from stock compensation program, net | (4,096) | (3,981) | (1,034) |
| Repurchase of common stock | — | — | (7,947) |
| Net cash (used in) provided by financing activities | (43,431) | 22,007 | 1,830 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 253 | 944 | (117) |
| CHANGE IN CASH AND CASH EQUIVALENTS | (7,989) | 667 | 28,336 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 35,947 | 35,280 | 6,944 |
| CASH AND CASH EQUIVALENTS—End of year | $ 27,958 | $ 35,947 | $ 35,280 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Cash paid during the period for: | | | |
| Income taxes | $ 24,610 | $ 15,951 | $ 8,880 |
| Cash paid for interest, net of capitalized interest | $ 2,756 | $ 2,012 | $ 1,786 |
| Non-cash investing and financing activities: | | | |
| Refinancing of line of credit to term debt | $ — | $ — | $ 18,500 |
| 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.*

**FOX FACTORY HOLDING CORP.**
**Notes to Consolidated Financial Statements**
**December 28, 2018**
**(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 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") and provides aftermarket products to retailers, dealerships, and distributors. 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. For 2018, 2017 and 2016, the Company's fiscal year ended on December 28, 2018, 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 of $420, $181, and $340 for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, 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.

(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. As of December 28, 2018 the Company held $4,356 in cash at U.S. subsidiaries and $23,602 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 28, 2018 | December 29, 2017 |
|---|---|---|
| Customer A | 13% | 8% |
| Customer B | 12% | 14% |
| Customer C | 12% | 15% |

During the years ended December 28, 2018, December 29, 2017 and December 30, 2016, Customer C from the table above represented 8%, 10%, and 14% 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 30%, 35%, and 34% of its product components for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, respectively, from ten vendors. As of December 28, 2018 and December 29, 2017, amounts due to these vendors represented 23% 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 | | |
|---|---|---|---|
| Allowance for doubtful accounts: | 2018 | 2017 | 2016 |
| Balance, beginning of year | $ 676 | $ 397 | $ 407 |
| Add: bad debt expense | 189 | 327 | 53 |
| Less: write-offs, net of recoveries | (265) | (48) | (63) |
| Balance, end of year | $ 600 | $ 676 | $ 397 |

**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.

(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 $6,597 in internal use computer software costs during the year ended December 28, 2018. 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 28, 2018, December 29, 2017 and December 30, 2016.

**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 assessment, 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. We completed our most recent annual impairment test in the third quarter of 2018 at which time we had a single reporting unit for purposes of assessing goodwill impairment. No impairment charges have been incurred to date.

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 28, 2018, December 29, 2017 and December 30, 2016.

**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 28, 2018 and December 29, 2017 are $801 and $934 respectively, and are recorded within accrued expenses on the consolidated balance sheets.

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

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

Provisions for discounts, rebates, sales incentives, returns, and other adjustments are generally provided for in the period the related sales are recorded, based on management's assessment of historical trends and projection of future results. Certain pricing provisions that provide the customer with future discounts are considered a material right. Such material rights result in the deferral of revenue that are recognized when the rights are exercised by the customer. Measuring the material rights requires judgments including forecasts of future sales and product mix. At December 28, 2018, the balance of deferred revenue related to pricing provisions was $188. These amounts are expected to be recognized over the next 12 months. Revenues exclude sales tax.

**Cost of Sales** - Cost of sales primarily consists of materials and labor expense in the manufacturing of the Company's products sold to customers. 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.

**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 has elected to account for global intangible low-taxed income ("GILTI") in the year the tax is incurred, rather than recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years. The net GILTI inclusion for the year ended December 28, 2018 was partially offset by foreign tax credits associated with the income and resulted in a net tax of $357.

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 $902, $1,070, and $1,242 for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, 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.

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

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

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

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the existing guidance for lease accounting. This ASU will require lessees to recognize leases with durations greater than 12 months on the balance sheet. This guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. The Company will adopt the new standard on December 29, 2018 with a cumulative-effect adjustment to the opening balance of retained earnings at that date with no restatement of comparative periods' financial information ("current-period adjustment method"), as recently allowed by the FASB. Additionally, the Company will adopt practical expedients with respect to the assessment of embedded leases, lease classification, and initial indirect costs for expired and existing leases, and has not adopted the hindsight practical expedient. The Company is substantially complete with the process of identifying the appropriate changes to its accounting policies, business processes, and related internal controls to support the recognition and disclosure of this requirement. The Company estimates that the impact of recording the right-of-use operating lease assets and operating lease liabilities on the consolidated balance sheet will be $14,000. The Company does not expect that the adoption of ASU 2016-02 will have a material impact on its results of operations or cash flows.

In June 2016, the FASB issue ASU 2016-13, Financial Instruments: Credit Losses, which adds an impairment model that is based on expected losses rather than incurred losses. Under this standard an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. This standard is effective for public companies for fiscal years beginning after December 15, 2019, including interim reporting periods within those years and early adoption permitted. The Company is currently assessing the impact of this guidance.

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

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

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

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

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other: Internal-Use Software, which helps simplify how entities evaluate the accounting for costs paid by a customer in a cloud computing arrangement that is a service contract. This standard will be effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

**Reclassifications** - Certain balances have been reclassified in the December 29, 2017 consolidated balance sheet and the consolidated statement of cash flows on a basis consistent with the financial statements as of and for the period ended December 28, 2018.

(in thousands, except per share amounts)

## 2. Revenues

The following table summarizes total sales by product category:

| | For the years ended | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Power Vehicle Group | $ 337,284 | $ 230,255 | $ 176,391 |
| Specialty Sports Group | 281,941 | 245,378 | 226,686 |
| Total sales | $ 619,225 | $ 475,633 | $ 403,077 |

The following table summarizes total sales by sales channel:

| | For the years ended | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| OEM | $ 368,580 | $ 288,733 | $ 243,816 |
| Aftermarket | 250,645 | 186,900 | 159,261 |
| Total sales | $ 619,225 | $ 475,633 | $ 403,077 |

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

| | For the years ended | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| North America | $ 388,702 | $ 280,860 | $ 221,312 |
| Asia | 119,142 | 101,079 | 100,999 |
| Europe | 101,217 | 86,405 | 76,999 |
| Rest of the World | 10,164 | 7,289 | 3,767 |
| Total sales | $ 619,225 | $ 475,633 | $ 403,077 |

Prior to December 29, 2017, 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 period ended December 30, 2016 for comparability.

## 3. Inventory

Inventory consisted of the following:

| | December 28, 2018 | December 29, 2017 |
|---|---|---|
| Raw materials | $ 75,652 | $ 51,371 |
| Work-in-process | 5,880 | 1,233 |
| Finished goods | 25,608 | 32,237 |
| Total inventory | $ 107,140 | $ 84,841 |

(in thousands, except per share amounts)

## 4. Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

| | December 28, 2018 | December 29, 2017 |
|---|---|---|
| Machinery and manufacturing equipment | $ 41,332 | $ 33,664 |
| Information systems, office equipment and furniture | 7,262 | 7,715 |
| Internal use computer software | 14,416 | 7,819 |
| Transportation equipment | 3,932 | 3,325 |
| Building and land | 18,978 | 8,811 |
| Leasehold improvements | 10,386 | 9,919 |
| Total | 96,306 | 71,253 |
| Less: accumulated depreciation and amortization | (31,518) | (27,617) |
| Property, plant and equipment, net | $ 64,788 | $ 43,636 |

Depreciation expense was $8,143, $6,923, and $5,766 for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, respectively, including $869, $565, and $254 of internal use software amortization for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, respectively. The Company capitalized $6,597 in internal use computer software costs during the year ended December 28, 2018.

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

| | December 28, 2018 | December 29, 2017 |
|---|---|---|
| United States | $ 59,056 | $ 38,450 |
| International | 5,732 | 5,186 |
| Total long-lived assets | $ 64,788 | $ 43,636 |

**FOX FACTORY HOLDING CORP.**
**Notes to Consolidated Financial Statements - continued**
**December 28, 2018**
**(in thousands, except per share amounts)**

## 5. 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 28, 2018** | | | | |
| Customer relationships | $ 67,624 | $ (24,134) | $ 43,490 | 11 |
| Core technology | 33,400 | (33,031) | 369 | 8 |
| Patents | 1,389 | (1,344) | 45 | 4 |
| Total | $ 102,413 | $ (58,509) | 43,904 | |
| Trademarks and brands, not subject to amortization | | | 40,070 | |
| Total | | | $ 83,974 | |
| **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 | |

| | For the years ended 2018 | 2017 | 2016 |
|---|---|---|---|
| Amortization of intangibles | $ 6,065 | $ 2,986 | $ 2,988 |

**Goodwill activity consisted of the following:**

| | |
|---|---|
| Balance as of December 29, 2017 | $ 88,438 |
| Purchase price adjustments (Refer to Note 15 - Acquisitions) | 440 |
| Currency translation and other adjustments | (28) |
| Balance as of December 28, 2018 | $ 88,850 |

Future amortization expense for finite-lived intangibles as of December 28, 2018 is as follows:

| **For fiscal year:** | Amortization Expense |
|---|---|
| 2019 | $ 5,925 |
| 2020 | 5,236 |
| 2021 | 5,134 |
| 2022 | 5,010 |
| 2023 | 4,368 |
| Thereafter | 18,231 |
| Total expected future amortization | $ 43,904 |

(in thousands, except per share amounts)

## 6. Accrued Expenses

Accrued expenses consisted of the following:

| | December 28, 2018 | December 29, 2017 |
|---|---|---|
| Payroll and related expenses | $ 15,870 | $ 13,211 |
| Warranty | 6,433 | 6,481 |
| Income tax payable | 6,691 | 6,772 |
| Other accrued expenses | 4,613 | 3,099 |
| Total | $ 33,607 | $ 29,563 |

Activity related to warranties is as follows:

| | For the years ended | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Beginning warranty liability | $ 6,481 | $ 4,593 | $ 3,914 |
| Charge to cost of sales | 4,621 | 5,904 | 4,833 |
| Fair value of warranty assumed in acquisition | 200 | 1,016 | — |
| Costs incurred | (4,869) | (5,032) | (4,154) |
| Ending warranty liability | $ 6,433 | $ 6,481 | $ 4,593 |

## 7. Related Party Transactions

Fox Factory, Inc. has a triple-net building lease for its manufacturing and office facilities in Watsonville, California. The building is owned by a former member of our Board of Directors who retired on August 28, 2018. Payments made under this lease were $656, $715 and $837 for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, 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 September 28, 2018, the Company purchased Tuscany's facilities from certain non-controlling interest stockholders who are also employees of the Company. The total purchase price was $3,750. These properties were leased by the Company prior to being purchased. Rent expense under these leases was $257 and $29 for the years ended December 28, 2018 and December 29, 2017, respectively.

(in thousands, except per share amounts)

## 8. 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, November 30, 2017 and November 14, 2018 (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 28, 2018, the one-month LIBOR and prime rates were 2.52% and 5.50%, respectively. At December 28, 2018 our weighted average interest rate on outstanding borrowing was 4.06%. 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 28, 2018.

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 28, 2018, the Company utilized $5,000 in the form of a standby letter of credit in support of subsidiary operations. The letter of credit expires in November 2019.

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

| | December 28, 2018 | December 29, 2017 |
|---|---|---|
| Amount outstanding | $ — | $ 35,000 |
| Standby letter of credit | $ 5,000 | $ 5,000 |
| Available borrowing capacity | $ 95,000 | $ 60,000 |
| Maximum borrowing capacity | $ 100,000 | $ 100,000 |
| Maturity date | May 11, 2021 | |

As of December 28, 2018, future principal payments for the term loan, including the current portion, are summarized as follows:

| | |
|---|---|
| **For fiscal year:** | |
| 2019 | $ 7,031 |
| 2020 | 7,031 |
| 2021 | 45,625 |
| Total term debt | 59,687 |
| Debt issuance cost | (261) |
| Long-term debt, net of issuance cost | 59,426 |
| Less: current portion | (6,923) |
| **Long-term debt less current portion** | $ 52,503 |

(in thousands, except per share amounts)

## 9. 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 $6,445, $6,045, and $4,819 for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, respectively. See Note 7 - 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 28, 2018, are as follows:

| For fiscal year: | Total future payments |
|---|---|
| 2019 | $ 5,781 |
| 2020 | 4,619 |
| 2021 | 2,569 |
| 2022 | 1,403 |
| Thereafter | 4,861 |
| | $ 19,233 |

**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, alleging patent infringement of U.S Patent number 9,291,250 ("'250 Patent"). The Company believes that the lawsuits are without merit and intends to vigorously defend itself. As such, the Company has filed, before the U. S. Patent and Trademark Appeals Board ("PTAB"), for Interparties Reviews ("IPR") of the '027 Patent and separately the same for the '250 Patent. In April 2018, the PTAB issued opinions in the '027 Patent petition cases stating that the Company has not shown the claims of the '027 Patent to be obvious. Regarding the PTAB '027 opinions, the Company has filed an Appeal to the Court of Appeals for the Federal Circuit. Regarding that appeal the Company has further moved the CAFC for remand of the '027 IPR to the PTAB. The PTAB has issued an opinion in the '250 Patent petition case stating that the Company has not shown the claims of the '250 Patent to be obvious.

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

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

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

**Other Commitments** - On November 30, 2017, the Company 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.

**Other Contingencies** - On June 21, 2018, the U.S. Supreme Court (the "Court") decided South Dakota v. Wayfair, Inc., et al., holding that internet retailers do not have to maintain a physical presence in a state in order to be required to collect the state's sales and use tax. Ultimately, the Court remanded the case to the South Dakota Supreme Court on the question of "whether some other principle in the Court's Commerce Clause doctrine might invalidate the Act," which may delay federal legislation on the issue. However, as a result of the Court's decision, additional states may now begin requiring all remote sellers, primarily those engaged in e-commerce, to register, collect and remit sales and use taxes on transactions with in-state customers. Numerous states have either enacted legislation or informally indicated that they will not assert liability for uncollected taxes on a retroactive basis. Nevertheless, the Company believes that it is possible that it will incur a liability for uncollected sales tax on some portion of its e-commerce sales through December 28, 2018. Any retroactively imposed liability is not expected to be material to the Company's results of operations or financial position because direct end-user sales in states where the Company is not registered comprise a small portion of total revenues.

## 10. 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 and $617 of expenses in connection with the secondary offerings during the fiscal years ended December 29, 2017 and December 30, 2016, respectively. The Company did not incur any expenses related to secondary offerings during the fiscal year ended December 28, 2018.

### 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 28, 2018, there were 3,071 shares reserved for issuance under the Company's equity incentive plans and 1,697 shares available for grant under the 2013 Plan. The Company generally issues new shares in connection with awards under its equity incentive plans.

(in thousands, except per share amounts)

**Stock-Based Compensation**

Compensation expense related to the Company's share-based awards for the years ended December 29, 2017 and December 30, 2016 was $8,727 and $6,223, respectively, of which $8,641 and $5,977, respectively, related to RSUs and $86 and $246, respectively, related to stock options. Compensation expense related to the Company's share-based awards for the fiscal year ended December 28, 2018 was $7,322, all of which related to RSUs. No compensation expense related to stock options was incurred during the fiscal year ended December 28, 2018.

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

| | For the fiscal years ended | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Cost of sales | $ 482 | $ 429 | $ 139 |
| Sales and marketing | 556 | 587 | 598 |
| Research and development | 640 | 442 | 357 |
| General and administrative | 5,644 | 7,269 | 5,129 |
| Total | $ 7,322 | $ 8,727 | $ 6,223 |

Stock-based compensation expense capitalized to inventory was not material for the years ended December 28, 2018, December 29, 2017 and December 30, 2016.

**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, 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 |
| Granted | 223 | 37.07 |
| Canceled | (30) | 25.16 |
| Vested | (338) | 21.98 |
| Unvested at December 28, 2018 | 655 | $ 29.34 |

(in thousands, except per share amounts)

The fair value of vested RSUs was $13,874, $12,587 and $5,122 for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, respectively. As of December 28, 2018, the Company had approximately $13,466 of unrecognized stock-based compensation expense related to RSUs, which will be recognized over the remaining weighted-average vesting period of approximately 2.68 years.

**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, 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 exercised | (166) | 5.25 | | 9,384 |
| Balance at December 28, 2018 | 720 | 5.17 | 3 | 39,403 |
| Options vested and expected to vest - December 28, 2018 | 720 | 5.17 | 3 | 39,403 |
| Options exercisable - December 28, 2018 | 720 | $ 5.17 | 3 | $ 39,403 |

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. No options vested during the year ended December 28, 2018. As of December 28, 2018, stock-based compensation expense related to stock options has been fully recognized.

During the years ended December 28, 2018, December 29, 2017 and December 30, 2016, 166, 541, and 193 shares of common stock, respectively, were issued due to the exercise of stock options, resulting in proceeds to the Company of approximately $875, $2,981, and $1,000, respectively.

(in thousands, except per share amounts)

## 11. 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 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Net income attributable to Fox stockholders | $ 84,040 | $ 43,128 | $ 35,675 |
| | | | |
| Weighted average shares used to compute basic earnings per share | 37,805 | 37,373 | 36,799 |
| Dilutive effect of employee stock plans | 1,151 | 1,365 | 1,002 |
| Weighted average shares used to compute diluted earnings per share | 38,956 | 38,738 | 37,801 |
| Earnings per share: | | | |
| Basic | $ 2.22 | $ 1.15 | $ 0.97 |
| Diluted | $ 2.16 | $ 1.11 | $ 0.94 |

The Company did not exclude any potentially dilutive shares from the calculation of diluted earnings per share for the years ended December 28, 2018, December 29, 2017 and December 30, 2016, as none of these shares would have been antidilutive.

(in thousands, except per share amounts)

## 12. Income Taxes

### Provision for Income Taxes

The components of income tax expense are as follows:

| | For the years ended | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Current:** | | | |
| Federal | $ 10,330 | $ 13,483 | $ 5,710 |
| State | 604 | 648 | (1,287) |
| Foreign | 7,248 | 8,148 | 6,008 |
| Total | 18,182 | 22,279 | 10,431 |
| **Deferred:** | | | |
| Federal | (11,462) | (923) | (1,729) |
| State | (671) | 387 | (1,156) |
| Foreign | (526) | (641) | (131) |
| Total | (12,659) | (1,177) | (3,016) |
| Provision for income taxes | $ 5,523 | $ 21,102 | $ 7,415 |

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 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| United States | $ 63,138 | $ 36,555 | $ 22,348 |
| Foreign | 27,752 | 27,730 | 20,742 |
| | $ 90,890 | $ 64,285 | $ 43,090 |

(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 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Tax at federal statutory rate | 21.0% | 35.0% | 35.0% |
| State taxes, net of federal benefit | 1.8 | 2.0 | 1.0 |
| Change in liability for unrecognized tax benefits | (10.8) | (1.7) | (4.9) |
| Stock-based compensation | (3.8) | (10.6) | (2.0) |
| Foreign derived income benefit | (1.6) | — | — |
| Research and development tax credit | (1.2) | (2.2) | (2.0) |
| Change in tax rates | (0.8) | (3.8) | — |
| California business development tax credit | (0.8) | — | (1.1) |
| Executive compensation deduction limitation | 2.2 | — | — |
| Foreign rate differential | 0.4 | (4.6) | (9.4) |
| Valuation allowance on deferred tax assets | 0.4 | 9.4 | — |
| Tax on unremitted foreign earnings | 0.4 | 8.9 | — |
| Other | (1.1) | 0.4 | 0.6 |
| Total provision | 6.1% | 32.8% | 17.2% |

The Tax Cuts and Jobs Act (the "TCJA") was enacted on December 22, 2017. The TCJA reduced the US federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on unremitted earnings of certain foreign subsidiaries that were previously tax deferred, created a new minimum tax on certain foreign earnings, and provided incentives for U.S. companies to sell and license goods and services abroad, among other changes. In 2017 we recorded provisional amounts for certain enactment-date effects of the Act by applying the guidance of the SEC's Staff Accounting Bulletin 118 ("SAB 118") because we had not yet completed our enactment-date accounting for these effects.

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 generates earnings that prior to the enactment of TCJA, were not subject to payment of U.S. income taxes or accrual of deferred tax expense because the Company asserted that such earnings were permanently invested outside the U.S. The unremitted earnings of Fox Switzerland through 2017 became subject to U.S. tax as a result of the one-time transition tax, which approximated $3,706. As a result of the change in U.S. taxation, the Company no longer considers the unremitted earnings of Fox Switzerland to be permanently reinvested, and as such recorded a deferred withholding tax liability of approximately $2,026 in 2017. In 2018, the Company restructured its foreign operations. The new structure provides operational and treasury management efficiencies, while permitting relief from dividend withholding on profits earned in 2018 forward.

*SAB 118 Measurement Period*

As permitted by SAB 118, the Company made reasonable estimates of the effects the TCJA where uncertainty existed, recognizing provisional amounts in the provision for income taxes for the year ended December 29, 2017 for all items for which it was able to determine a reasonable estimate. In cases where a reasonable estimate was not possible, including the remeasurement of deferred tax assets and liabilities and the one-time transition tax, the Company continued to apply 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 impact of the TCJA differed from the 2017 estimates during the one-year measurement period permitted by SAB 118 due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company made, and guidance that has been issued. The Company completed its accounting for the enactment-date income tax effects of the TCJA in 2018, recording net adjustments of $264, or 0.3% of pretax income. However, the Company's estimates may continue to be affected as interpretations of the law through regulations and as common practices emerge.

Deferred Tax Assets and Liabilities: As of December 29, 2017, the Company remeasured its U.S. deferred tax assets and liabilities that give rise to future tax deductions based on the enacted tax rates in effect for the periods in which the deductions are expected to be taken, recognizing a provisional benefit of $2,448. In August 2018, the U.S. Internal Revenue Service ("IRS") issued a notice (the "IRS Notice") regarding the provisionally accounted for grandfathering provisions on limitations of executive compensation. The IRS Notice is expected to be incorporated into final clarifying regulations that have yet to be proposed. In 2018, the Company reduced its deferred tax asset by $552 for pre-2018 stock-based compensation expense, the deductibility of which is uncertain based on the guidance in the IRS Notice.

One-Time Transition Tax: The one-time transition tax was based on the total post-1986 earnings and profits on which we previously deferred U.S. income taxes under U.S. law. We recorded a provisional amount for our one-time transition tax liability of $3,706 at December 29, 2017. The calculation was finalized in 2018, considering additional information, and did not differ materially from the 2017 estimate.

The Company has obtained tax incentives in Switzerland that are effective on a formal basis through March 2019, and indefinitely on a statutory basis, as long as the Company's operations meet specified criteria. The effect of the tax incentive was not material to the Company's income tax provision for the three years ended December 28, 2018, December 29, 2017 and December 30, 2016.

During the year ended December 28, 2018, the Company met certain in-state growth requirements in order to earn the final three tranches of a four-year, $1,700 tax credit from the State of California for a benefit of $950, or $751 net of federal income tax. The Company did not recognize any benefit for the year ended December 29, 2017. The Company recognized a benefit of $750, or $488 net of federal income tax for the year ended December 30, 2016.

(in thousands, except per share amounts)

**Deferred Income Taxes**

| | December 28, 2018 | December 29, 2017 |
|---|---|---|
| **Deferred tax assets:** | | |
| Foreign tax credits, including amounts associated with accrued charges | $ 23,920 | $ 11,321 |
| Inventory | 3,086 | 2,344 |
| Accrued liabilities | 2,815 | 1,649 |
| Research and development tax credits | 2,536 | 2,473 |
| Stock-based compensation | 1,067 | 1,718 |
| Other | 787 | 703 |
| Total deferred tax asset | 34,211 | 20,208 |
| Valuation allowance | (6,609) | (6,336) |
| Net deferred tax asset | 27,602 | 13,872 |
| **Deferred tax liabilities:** | | |
| Depreciation | (7,012) | (4,496) |
| Accrued withholding tax on unremitted foreign dividends | (2,164) | (2,179) |
| Intangible assets | (2,220) | (3,545) |
| Other | (878) | (983) |
| Total deferred tax liability | (12,274) | (11,203) |
| Net deferred tax asset | $ 15,328 | $ 2,669 |

As of December 28, 2018, the Company had foreign tax credits of $23,920 which begin to expire in 2025, unless previously utilized, and foreign net operating loss carryforwards of $1,931, of which $1,796 begin to expire in 2025 if not utilized and $135 which do not expire. The Company also had federal and state research and development credits of approximately $846 and $2,577. The federal research and development credits begin to expire in 2037 unless previously utilized, and the state research credits do not expire.

As of December 28, 2018, 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 as of December 29, 2017. For the year ended December 28, 2018, the valuation allowance increased by $256, primarily as a result of an adjustment to foreign tax credits utilized for the TCJA on-time transition tax. The valuation allowance for foreign tax credits was $6,287 as of December 28, 2018. It is reasonably possible that the Company could record a material adjustment to the valuation allowance in the next twelve months as management assesses the progress and outcome of its restructuring activities.

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 $322 has been recorded to offset the deferred tax assets in these jurisdictions.

(in thousands, except per share amounts)

**Unrecognized Tax Benefits**

| | For the years ended | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Balance - beginning of period | $ 8,154 | $ 7,440 | $ 8,924 |
| Increase related to current year tax positions | 457 | 460 | 1,828 |
| Increase related to prior year tax positions | 36 | 1,770 | 24 |
| Decrease related to prior year tax positions | (6,480) | — | (1,216) |
| Decrease due to expiration of statute of limitations | (171) | (1,516) | (2,120) |
| Balance - end of period | $ 1,996 | $ 8,154 | $ 7,440 |

As of December 28, 2018, the Company had $1,996 of unrecognized tax benefits, of which approximately $1,478, 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. In 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. Additionally, the IRS and the Company entered into a closing agreement that resolved the uncertainty about the deductibility of amortization and depreciation arising from the acquisition of the Company in 2008 for all open tax years. The favorable conclusion resulted in a decrease in the unrecognized tax benefits of $6,198, of which $5,648 favorably impacted the effective tax rate. Including the reversal of the amounts presented net of deferred tax assets and accrued interest and penalties, the favorable conclusion resulted in a benefit of $9,838 to the provision for income tax for the year ended December 28, 2018. The deductibility of acquisition related amortization and depreciation for state tax purposes remains uncertain.

The Company believes that it is reasonably possible that unrecognized tax benefits at December 28, 2018 could be reduced by an additional $582 in the next twelve months as a result of expiration of statute of limitations.

As of December 28, 2018 and December 29, 2017, the Company had approximately $73 and $311, 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 2016 forward federal tax returns, state tax returns from 2014 and forward, and foreign tax returns from 2016 and forward are subject to examination by tax authorities. The Company is not currently under examination by tax authorities in any jurisdiction.

(in thousands, except per share amounts)

## 13. Fair Value Measurement and Financial Instruments

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 28, 2018 | | | | December 29, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Liabilities: | | | | | | | | |
| Credit facility | $ — | $ 59,426 | $ — | $ 59,426 | $ — | $ 63,058 | $ — | $ 63,058 |
| Non-controlling interest subject to put provisions | — | — | 14,282 | 14,282 | — | — | 12,955 | 12,955 |
| Total liabilities measured at fair value | $ — | $ 59,426 | $ 14,282 | $ 73,708 | $ — | $ 63,058 | $ 12,955 | $ 76,013 |

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 categories of the fair value hierarchy during the years ended December 28, 2018, and December 29, 2017.

As of December 28, 2018 and December 29, 2017, the carrying amount of the principal under the Company's Second Amended and Restated Credit Facility approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio. As of December 28, 2018, 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 is revalued each quarter, with the adjustment being recorded directly as a component of retained earnings. The methodology the Company uses 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 carrying value of the non-controlling interest as of December 28, 2018 has been adjusted to reflect the valuation floor, which represents the sum of the initial valuation and the cumulative net earnings attributable to the non-controlling interest. 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.

(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 29, 2017 | $ 12,955 |
| Net income attributable to non-controlling interest | 1,327 |
| Balance at December 28, 2018 | $ 14,282 |

## 14. 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 $850, $437, and $373 for each of the years ended December 28, 2018, December 29, 2017 and December 30, 2016, respectively.

## 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. 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.

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. During the year ended, December 28, 2018, the Company finalized the allocation of the purchase price and recorded adjustments to Goodwill of $440 related to the completion of the Company's validation of working capital, intangible valuation procedures, and analysis of opening warranty provisions. 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.

**FOX FACTORY HOLDING CORP.**
**Notes to Consolidated Financial Statements - continued**
**December 28, 2018**
**(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 |

### 16. Selected Quarterly Financial Data (Unaudited)

Selected summarized quarterly financial information for 2018 and 2017 is as follows:

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 28, 2018 | Sep 28, 2018 | Jun 29, 2018 | Mar 30, 2018 | Dec 29, 2017 | Sep 29, 2017 | Jun 30, 2017 | Mar 31, 2017 |
| Sales | $ 156,810 | $ 175,798 | $ 156,825 | $ 129,792 | $ 121,093 | $ 127,399 | $ 120,811 | $ 106,330 |
| Gross profit | 50,953 | 60,486 | 52,413 | 41,644 | 39,122 | 42,597 | 39,056 | 33,714 |
| Income from operations | 22,853 | 31,452 | 24,275 | 15,952 | 16,053 | 20,378 | 18,189 | 12,417 |
| Net income attributable to Fox Stockholders | 20,135 | 24,312 | 18,369 | 21,224 | 2,802 | 16,072 | 13,726 | 10,528 |
| Earnings per share: | | | | | | | | |
| Basic | $ 0.53 | $ 0.64 | $ 0.49 | $ 0.56 | $ 0.07 | $ 0.43 | $ 0.37 | $ 0.28 |
| Diluted | $ 0.52 | $ 0.62 | $ 0.47 | $ 0.55 | $ 0.07 | $ 0.41 | $ 0.35 | $ 0.27 |