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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2023

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36040

Fox Factory Holding Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

26-1647258

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

2055 Sugarloaf Circle, Suite 300, Duluth GA 30097

(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	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	FOXF	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>		

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

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

As of October 26, 2023, there were 42,380,934 shares of the registrant's common stock outstanding.

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

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	Unaudited Condensed Consolidated Balance Sheets as of September 29, 2023 and December 30, 2022 <u>3</u>
	Unaudited Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 29, 2023 and September 30, 2022 <u>4</u>
	Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 29, 2023 and September 30, 2022 <u>5</u>
	Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended September 29, 2023 and September 30, 2022 <u>6</u>
	Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 29, 2023 and September 30, 2022 <u>8</u>
	Notes to Unaudited Condensed Consolidated Financial Statements <u>10</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>23</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <u>32</u>
<u>Item 4.</u>	<u>Controls and Procedures</u> <u>32</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> <u>33</u>
<u>Item 1A.</u>	<u>Risk Factors</u> <u>34</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>56</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> <u>56</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> <u>56</u>
<u>Item 5.</u>	<u>Other Information</u> <u>56</u>
<u>Item 6.</u>	<u>Exhibits</u> <u>57</u>
	<u>Signatures</u> <u>58</u>

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS**FOX FACTORY HOLDING CORP.**
Condensed Consolidated Balance Sheets
(in thousands, except per share data)
(unaudited)

	As of September 29, 2023	As of December 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 90,631	\$ 145,250
Accounts receivable (net of allowances of \$1,374 and \$443 at September 29, 2023 and December 30, 2022, respectively)	149,989	200,440
Inventory	341,209	350,620
Prepays and other current assets	155,394	101,364
Total current assets	737,223	797,674
Property, plant and equipment, net	211,142	202,215
Lease right-of-use assets	64,133	48,096
Deferred tax assets	57,256	57,339
Goodwill	386,139	323,978
Intangibles, net	207,659	178,980
Other assets	10,806	10,054
Total assets	\$ 1,674,358	\$ 1,618,336
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 88,476	\$ 131,160
Accrued expenses	103,201	127,729
Total current liabilities	191,677	258,889
Line of credit	190,000	200,000
Other liabilities	51,378	38,061
Total liabilities	433,055	496,950
Commitments and contingencies (Refer to Note 8 - Commitments and Contingencies)		
Stockholders' equity		
Preferred stock, \$0.001 par value — 10,000 authorized and no shares issued or outstanding as of September 29, 2023 and December 30, 2022	—	—
Common stock, \$0.001 par value — 90,000 authorized; 43,270 shares issued and 42,380 outstanding as of September 29, 2023; 43,160 shares issued and 42,270 outstanding as of December 30, 2022	42	42
Additional paid-in capital	364,118	356,239
Treasury stock, at cost; 890 common shares as of September 29, 2023 and December 30, 2022	(13,754)	(13,754)
Accumulated other comprehensive income	10,025	14,782
Retained earnings	880,872	764,077
Total stockholders' equity	1,241,303	1,121,386
Total liabilities and stockholders' equity	\$ 1,674,358	\$ 1,618,336

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

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

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Net sales	\$ 331,117	\$ 409,168	\$ 1,131,683	\$ 1,193,850
Cost of sales	223,890	271,901	759,132	793,379
Gross profit	107,227	137,267	372,551	400,471
Operating expenses:				
General and administrative	25,710	29,171	89,692	83,182
Sales and marketing	24,439	23,508	74,664	70,272
Research and development	8,904	13,955	39,374	40,811
Amortization of purchased intangibles	6,809	5,271	19,982	16,214
Total operating expenses	65,862	71,905	223,712	210,479
Income from operations	41,365	65,362	148,839	189,992
Interest expense	3,466	2,667	11,405	6,341
Other (income) expense, net	(878)	(1,441)	(318)	3,067
Income before income taxes	38,777	64,136	137,752	180,584
Provision for income taxes	3,484	13,365	20,957	28,265
Net income	\$ 35,293	\$ 50,771	\$ 116,795	\$ 152,319
Earnings per share:				
Basic	\$ 0.83	\$ 1.20	\$ 2.76	\$ 3.61
Diluted	\$ 0.83	\$ 1.20	\$ 2.75	\$ 3.59
Weighted-average shares used to compute earnings per share:				
Basic	42,395	42,281	42,350	42,215
Diluted	42,510	42,387	42,497	42,374

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

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

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Net income	\$ 35,293	\$ 50,771	\$ 116,795	\$ 152,319
Other comprehensive (loss) income				
Interest rate swap, net of tax effects	(281)	2,563	(2,219)	9,296
Foreign currency translation adjustments	(2,423)	(4,091)	(2,538)	(7,847)
Other comprehensive (loss) income	(2,704)	(1,528)	(4,757)	1,449
Comprehensive income	<u>\$ 32,589</u>	<u>\$ 49,243</u>	<u>\$ 112,038</u>	<u>\$ 153,768</u>

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

FOX FACTORY HOLDING CORP.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands)
(unaudited)

	Common Stock		Treasury		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance - December 31, 2021	43,010	\$ 42	890	\$ (13,754)	\$ 344,119	\$ 4,876	\$ 558,799	\$ 894,082
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	29	—	—	—	(820)	—	—	(820)
Stock-based compensation expense	—	—	—	—	3,029	—	—	3,029
Other comprehensive income	—	—	—	—	—	4,743	—	4,743
Net income	—	—	—	—	—	—	48,050	48,050
Balance - April 1, 2022	43,039	\$ 42	890	\$ (13,754)	\$ 346,328	\$ 9,619	\$ 606,849	\$ 949,084
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	114	—	—	—	(2,950)	—	—	(2,950)
Stock-based compensation expense	—	—	—	—	4,061	—	—	4,061
Other comprehensive loss	—	—	—	—	—	(1,766)	—	(1,766)
Net income	—	—	—	—	—	—	53,498	53,498
Balance - July 1, 2022	43,153	\$ 42	890	\$ (13,754)	\$ 347,439	\$ 7,853	\$ 660,347	\$ 1,001,927
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	4	—	—	—	(325)	—	—	(325)
Stock-based compensation expense	—	—	—	—	4,289	—	—	4,289
Other comprehensive loss	—	—	—	—	—	(1,528)	—	(1,528)
Net income	—	—	—	—	—	—	50,771	50,771
Balance - September 30, 2022	43,157	\$ 42	890	\$ (13,754)	\$ 351,403	\$ 6,325	\$ 711,118	\$ 1,055,134

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

[Table of Contents](#)

	Common Stock		Treasury		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance - December 30, 2022	43,160	\$ 42	890	\$ (13,754)	\$ 356,239	\$ 14,782	\$ 764,077	\$ 1,121,386
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	33	—	—	—	(2,155)	—	—	(2,155)
Stock-based compensation expense	—	—	—	—	5,701	—	—	5,701
Other comprehensive loss	—	—	—	—	—	(2,452)	—	(2,452)
Net income	—	—	—	—	—	—	41,767	41,767
Balance - March 31, 2023	43,193	\$ 42	890	\$ (13,754)	\$ 359,785	\$ 12,330	\$ 805,844	\$ 1,164,247
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	51	—	—	—	(3,063)	—	—	(3,063)
Stock-based compensation expense	—	—	—	—	4,483	—	—	4,483
Other comprehensive income	—	—	—	—	—	399	—	399
Net income	—	—	—	—	—	—	39,735	39,735
Balance - June 30, 2023	43,244	\$ 42	890	\$ (13,754)	\$ 361,205	\$ 12,729	\$ 845,579	\$ 1,205,801
Issuance of common stock under equity compensation plans, net of shares repurchased for income tax withholding	26	—	—	—	(945)	—	—	(945)
Stock-based compensation expense	—	—	—	—	3,858	—	—	3,858
Other comprehensive loss	—	—	—	—	—	(2,704)	—	(2,704)
Net income	—	—	—	—	—	—	35,293	35,293
Balance - September 29, 2023	43,270	\$ 42	890	\$ (13,754)	\$ 364,118	\$ 10,025	\$ 880,872	\$ 1,241,303

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

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

	For the nine months ended	
	September 29, 2023	September 30, 2022
OPERATING ACTIVITIES:		
Net income	\$ 116,795	\$ 152,319
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,519	36,813
Stock-based compensation	14,042	11,379
Amortization of loan fees	679	860
Write off of unamortized loan origination fees	—	1,927
Amortization of deferred gains on prior swap settlements	(3,189)	(2,113)
Amortization of inventory fair value step-up	9,903	—
Gain on disposal of property and equipment	—	(1,845)
Deferred taxes	(512)	(12,515)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	53,299	(59,976)
Inventory	24,317	(84,834)
Income taxes	(20,384)	4,171
Prepays and other assets	(53,130)	(55,000)
Accounts payable	(51,389)	43,439
Accrued expenses and other liabilities	(7,265)	22,410
Net cash provided by operating activities	<u>126,685</u>	<u>57,035</u>
INVESTING ACTIVITIES:		
Acquisitions of businesses, net of cash acquired	(130,918)	—
Acquisition of other assets, net of cash acquired	(2,432)	—
Purchases of property and equipment	(32,048)	(35,559)
Proceeds from sale of property and equipment	—	3,180
Net cash used in investing activities	<u>(165,398)</u>	<u>(32,379)</u>
FINANCING ACTIVITIES:		
Proceeds from line of credit	210,000	582,356
Payments on line of credit	(220,000)	(259,336)
Repayment of term debt	—	(382,500)
Installment on purchase of non-controlling interest	—	(2,700)
Repurchases from stock compensation program, net	(6,163)	(4,094)
Proceeds from termination of swap agreement	—	12,270
Net cash used in financing activities	<u>(16,163)</u>	<u>(54,004)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	257	2,799
CHANGE IN CASH AND CASH EQUIVALENTS	(54,619)	(26,549)
CASH AND CASH EQUIVALENTS—Beginning of period	145,250	179,686
CASH AND CASH EQUIVALENTS—End of period	<u>\$ 90,631</u>	<u>\$ 153,137</u>

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

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

SUPPLEMENTAL CASH FLOW INFORMATION:	For the nine months ended	
	September 29, 2023	September 30, 2022
Cash paid during the period for:		
Income taxes	\$ 42,017	\$ 36,487
Interest, net of capitalized interest	14,608	6,649
Amounts included in the measurement of lease liabilities	10,026	7,807
Non-cash operating activities:		
Right-of-use assets obtained in exchange for lease obligations (1)	\$ 28,812	\$ 11,966
Non-cash investing and financing activities:		
Capital expenditures included in accounts payable	\$ 756	\$ 1,698

(1) Includes new leases executed in the United States of America "U.S.".

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

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

1. Description of the Business, Basis of Presentation, and Summary of Significant Accounting Policies - Fox Factory Holding Corp. (the “Company”) designs, engineers, manufactures, and markets performance-defining products and systems for customers worldwide. 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 (“ATVs”), snowmobiles, and specialty vehicles and applications. 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.

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

Basis of Presentation - The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted (“GAAP”) in the United States of America (“U.S.” or “United States”) and applicable rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 30, 2022 included in the Company’s Annual Report on Form 10-K, as filed with the SEC on February 23, 2023. In management’s opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, that are necessary for a fair presentation of financial results for the interim periods presented. Operating results for any quarter are not necessarily indicative of the results for the full fiscal year.

Fiscal Year Calendar - The Company operates on a 52-53 week fiscal year calendar. For 2023 and 2022, the Company’s fiscal year will end or has ended on December 29, 2023 and December 30, 2022, respectively. The twelve month periods ended December 29, 2023 and December 30, 2022, will include or have included 52 weeks. The three and nine month periods ended September 29, 2023 and September 30, 2022 each included 13 weeks and 26 weeks, respectively.

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

Summary of Significant Accounting Policies - There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 30, 2022, as filed with the SEC on February 23, 2023 that have had a material impact on our condensed consolidated financial statements and related notes.

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. Sales tax and other similar taxes are excluded from revenues. Revenues generated from upfit packages generally do not include the vehicle chassis, as the Company is not the principal in this arrangement and the automotive dealer purchases the chassis directly from the OEM. The Company is required to place a deposit on some vehicle chassis that the dealer purchases directly from the OEM, however that deposit is refunded when the chassis is sold through to the end customer.

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.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

Segments - The Company has determined that it has a single operating and reportable segment: manufacturing, sale and service of performance-defining products. 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.

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

Reclassifications - We have reclassified certain prior period amounts within our Note 2 - Revenues for the three and nine months ended September 30, 2022 to conform to our current period presentation. The reclassifications did not have any impact on net income or other major financial statement line items.

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.

Fair Value Measurements and Financial Instruments - The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Codification ("ASC") 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, accrued liabilities and line of credit approximate their fair values due to their short-term nature.

Recent Accounting Pronouncements

In September 2022, the FASB issued accounting standards update ("ASU") 2022-04, Liabilities - Supplier Finance Programs (Subtopic 405): Disclosure of Supplier Finance Program Obligations. Under ASU 2022-04, the buyer in a supplier finance program is required to disclose sufficient information to allow a user of the financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. The guidance is effective for interim and annual periods beginning after December 15, 2022, with early adoption permitted. These amendments will be applied retrospectively to each period in which a balance sheet is presented, except for the disclosure of rollforward information, which will be applied prospectively. The Company adopted the interim disclosure requirements, as applicable, during the first quarter of 2023 and will adopt the annual disclosure requirements, except for the annual rollforward, in our 2023 Annual Report on Form 10-K. The Company expects to adopt the annual rollforward requirement in our 2024 Annual Report on Form 10-K. Refer to the "Bailment Pool Arrangements" section within [Note 8 - Commitments and Contingencies](#) for further details of this adoption.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

2. Revenues

In the second quarter of fiscal year 2023, the Company realigned its Powered Vehicles Group into the Powered Vehicles Group and the Aftermarket Applications Group to be more aligned with the Company's end customers and drive additional focus on product development. The new Powered Vehicles Group is comprised of sales to original equipment off-road and power sports manufacturers and aftermarket businesses that sell shocks directly to dealers and distributors. The Aftermarket Applications Group is comprised of aftermarket businesses that offer custom vehicle shock, tuning, suspension, lift kit, upfitting, and wheel and tire solutions for automotive and power sports enthusiasts. All prior-period amounts have been recast to conform with the current period presentation. The following table summarizes total net sales by product group:

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Powered Vehicles Group	\$ 123,076	\$ 109,467	\$ 405,519	\$ 299,831
Aftermarket Applications Group	136,039	125,729	430,391	372,504
Specialty Sports Group	72,002	173,972	295,773	521,515
Total net sales	<u>\$ 331,117</u>	<u>\$ 409,168</u>	<u>\$ 1,131,683</u>	<u>\$ 1,193,850</u>

The following table summarizes total net sales by sales channel:

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
OEM	\$ 155,632	\$ 238,078	\$ 570,550	\$ 662,453
Aftermarket	175,485	171,090	561,133	531,397
Total net sales	<u>\$ 331,117</u>	<u>\$ 409,168</u>	<u>\$ 1,131,683</u>	<u>\$ 1,193,850</u>

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

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
North America	\$ 268,703	\$ 255,424	\$ 864,612	\$ 746,566
Europe	31,958	82,299	147,082	242,373
Asia	25,540	66,875	104,399	188,704
Rest of the world	4,916	4,570	15,590	16,207
Total net sales	<u>\$ 331,117</u>	<u>\$ 409,168</u>	<u>\$ 1,131,683</u>	<u>\$ 1,193,850</u>

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

3. Inventory

Inventory consisted of the following:

	September 29, 2023	December 30, 2022
Raw materials	\$ 234,049	\$ 247,441
Work-in-process	10,346	9,959
Finished goods	96,814	93,220
Total inventory	<u>\$ 341,209</u>	<u>\$ 350,620</u>

4. Prepaids and Other Current Assets

Prepaids and other current assets consisted of the following:

	September 29, 2023	December 30, 2022
Prepaid chassis deposits	\$ 119,666	\$ 74,013
Advanced payments and prepaid contracts	22,786	13,598
Other current assets	12,942	13,753
Total	<u>\$ 155,394</u>	<u>\$ 101,364</u>

5. Property, Plant and Equipment, net

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

	September 29, 2023	December 30, 2022
Machinery and manufacturing equipment	\$ 138,047	\$ 122,748
Building and building improvements	76,097	73,594
Internal-use computer software	32,956	30,290
Information systems, office equipment and furniture	24,924	21,655
Leasehold improvements	24,415	20,078
Transportation equipment	14,683	12,450
Land and land improvements	14,538	14,493
Total property, plant and equipment	325,660	295,308
Less: accumulated depreciation and amortization	(114,518)	(93,093)
Total property, plant and equipment, net	<u>\$ 211,142</u>	<u>\$ 202,215</u>

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

	September 29, 2023	December 30, 2022
United States	\$ 172,938	\$ 166,544
International	38,204	35,671
Total long-lived assets	<u>\$ 211,142</u>	<u>\$ 202,215</u>

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

6. Accrued Expenses

Accrued expenses consisted of the following:

	September 29, 2023	December 30, 2022
Payroll and related expenses	\$ 23,424	\$ 38,193
Income tax payable	20,290	40,701
Warranty	20,041	17,071
Current portion of lease liabilities	12,815	10,314
Accrued sales rebate	12,608	8,693
Other accrued expenses	14,023	12,757
Total	<u>\$ 103,201</u>	<u>\$ 127,729</u>

The Company generally provides a limited warranty for products for a one, two or three-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 the product is incorporated as original equipment on the purchased bike or powered vehicle; (ii) in the case of aftermarket sales, the date the product is originally purchased from an authorized dealer; or (iii) in the case of upfitting sales, the date of the retail sale to an end customer. Activity related to warranties is as follows:

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Beginning warranty liability	\$ 19,751	\$ 16,088	\$ 17,071	\$ 15,510
Charge to cost of sales	4,152	2,812	12,763	8,261
Fair value of warranty assumed in acquisition	—	—	100	—
Costs incurred	(3,862)	(2,659)	(9,893)	(7,530)
Ending warranty liability	<u>\$ 20,041</u>	<u>\$ 16,241</u>	<u>\$ 20,041</u>	<u>\$ 16,241</u>

**All changes to warranty liability were within normal course of business.*

7. Debt**Prior Credit Facility**

In June 2019, the Company entered into a credit facility with Bank of America and other named lenders, which was periodically amended and restated and/or amended. The credit facility was amended and restated on March 11, 2020, and further amended on June 19, 2020, and June 11, 2021 (as amended, the “Prior Credit Facility”). The Prior Credit Facility (which was terminated on April 5, 2022 and replaced with the 2022 Credit Facility (as discussed below)), would have matured on March 11, 2025, and provided a senior secured revolving line of credit with a borrowing capacity of \$250,000 and a term loan of \$400,000. The term loan was subject to quarterly amortization payments.

2022 Credit Facility

On April 5, 2022, the Company entered into a new credit agreement with Wells Fargo Bank, National Association, and other named lenders (the “2022 Credit Facility”), and concurrently repaid in full and terminated the Prior Credit Facility. The 2022 Credit Facility, which matures on April 5, 2027, provides for revolving loans, swingline loans and letters of credit up to an aggregate amount of \$650,000.

On April 5, 2022, the Company borrowed \$475,000 under the 2022 Credit Facility, which was used to repay all outstanding amounts owed under the Prior Credit Facility and for general corporate purposes. Future advances under the 2022 Credit Facility will be used to finance working capital, capital expenditures and other general corporate purposes of the Company. To the extent not previously paid, all then-outstanding amounts under the 2022 Credit Facility are due and payable on the maturity date.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

The Company paid \$1,980 in debt issuance costs in connection with the 2022 Credit Facility, which were allocated to the line of credit and amortized on a straight-line basis over the term of the facility. Additionally, the Company had \$4,473 of remaining unamortized debt issuance costs related to the Prior Credit Facility. The Company expensed \$1,927 of the remaining unamortized debt issuance costs and allocated \$2,546 to the 2022 Credit Facility.

The Company may borrow, prepay and re-borrow principal under the 2022 Credit Facility during its term. Advances under the 2022 Credit Facility can be either Adjusted Term Secured Overnight Financing Rate (“SOFR”) loans or base rate loans. SOFR rate revolving loans bear interest on the outstanding principal amount thereof for each interest period at a rate per annum equal to Term SOFR for such calculation plus 0.10% plus a margin ranging from 1.00% to 2.00%. Base rate revolving loans bear interest on the outstanding principal amount thereof at a rate per annum equal to the highest of (i) Federal Funds Rate plus 0.50%, (ii) the rate of interest in effect for such day as publicly announced from time to time by the lender as its “prime rate”, and (iii) Adjusted Term SOFR rate for a one-month tenor plus 1.00%, subject to the interest rate floors set forth therein, plus a margin ranging from 0.00% to 1.00%. At September 29, 2023, the one-month SOFR and three-month SOFR rates were 5.32% and 5.27%, respectively. At September 29, 2023, our weighted-average interest rate on outstanding borrowing was 5.31%.

The 2022 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 requires that the Company satisfy customary financial ratios. The Company was in compliance with the covenants as of September 29, 2023.

The following table summarizes the line of credit under the 2022 Credit Facility:

	<u>September 29, 2023</u>	<u>December 30, 2022</u>
Amount outstanding	\$ 190,000	\$ 200,000
Available borrowing capacity	460,000	450,000
Total borrowing capacity	<u>\$ 650,000</u>	<u>\$ 650,000</u>

On June 11, 2021, the Company entered into a swap agreement (the “2021 Swap Agreement”) to obtain a more favorable interest rate and to manage interest rate risk exposure. On April 5, 2022, the Company terminated its 2021 Swap Agreement and entered into a new interest rate swap agreement (the “2022 Swap Agreement”). Through the 2022 Swap Agreement, the Company hedges the variability of cash flows in interest payments associated with \$100,000 of its variable rate debt. Refer to [Note 9 - Derivatives and Hedging](#) for further details of the 2022 Swap Agreement.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

8. Commitments and Contingencies

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 - From time to time, the Company is involved in legal proceedings that arise in the ordinary course of business. Although the Company cannot assure the outcome of any such legal proceedings, based on information currently available, management does not believe that the ultimate resolution of any pending matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Bailment Pool Arrangements - The Company has relationships with several OEM partners, including General Motors ("GM"), Ford Motor Company ("Ford"), and Chrysler to obtain truck chassis. For Chrysler chassis, the Company pays a cash deposit upon transfer of the chassis to the Company's premises, and records the chassis within prepaids and other current assets on the condensed consolidated balance sheets until the chassis is transferred to the dealer customer's floorplan, at which time the cash deposit is returned to the Company. For GM and Ford, the Company has entered into floorplan financing agreements with the OEM. The Company receives an allocation of chassis and pays interest expense on the allocated value of trucks based on the duration of time they are on the Company's premises. Bailment, which is the non-ownership transfer of the chassis from GM and Ford to the Company, ends when the vehicle is sold to an authorized dealer, or upon authorized return of the vehicle to the manufacturer. The Company does not pay a cash deposit to obtain GM and Ford chassis, and accordingly it does not recognize an asset or a liability related to these chassis. Interest payments made to manufacturer-affiliated finance companies are classified as operating activities in the condensed consolidated statements of cash flows.

At September 29, 2023 and December 30, 2022, the Company had utilized \$21,228 and \$2,634 out of a maximum of \$43,600 and \$26,200 of Ford allocation of chassis, respectively, and \$11,259 and \$67,149, respectively, out of a maximum of \$100,000 GM allocation of chassis. The company incurred \$740 and \$4,310 of interest expense related to chassis on hand during the three and nine months ended September 29, 2023, respectively.

Other Commitments - On November 30, 2017, the Company through FF US Holding Corp., acquired the assets of Flagship, Inc. d/b/a Tuscany and issued a 20% interest in FF US Holding Corp. to Flagship, Inc. A stockholders' agreement with Flagship, Inc. provided the Company with a call option (the "Call Option") to acquire the remaining 20% of FF US Holding Corp. at any time from November 30, 2019 through November 30, 2024 at a value that approximates fair market value. On July 22, 2020, the Company exercised the Call Option and, pursuant to a stock purchase agreement with Flagship, Inc., the Company purchased the remaining 20% interest for \$24,975 payable in a combination of stock and cash. The cash portion was settled in quarterly installment payments beginning in July 2020 through July 2022, which amounted to \$6,556, \$4,550 and \$2,700 in 2020, 2021 and 2022, respectively. The Company paid \$900 and \$2,700 during the three and nine months ended September 30, 2022, respectively. The Company had no remaining liability as of September 29, 2023. The stock portion of 136 shares were released from escrow on a quarterly basis starting January 2021 through July 2022. The Company released 19 and 58 shares of stock during the three and nine months ended September 30, 2022, respectively. The Company had no remaining shares to be released as of September 29, 2023. The exercise of the Call Option effectively canceled the put option held by Flagship, Inc.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

9. Derivatives and Hedging

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. The Company utilizes interest rate swaps to limit its exposure to interest rate risk by converting a portion of its floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. Interest rate swaps involve the receipt of floating-rate amounts in exchange for fixed-rate interest payments based on the SOFR over the lives of the agreements without an exchange of the underlying principal amounts.

As of September 29, 2023 and December 30, 2022, the Company had the following interest rate swap contracts:

Effective Date	Termination Date	Notional Amount	September 29, 2023	December 30, 2022
			Unrealized Gain in AOCI	Unrealized Gain in AOCI
September 2, 2020	June 11, 2021	\$200,000	\$ 125	\$ 189
July 2, 2021	April 5, 2022	\$200,000	6,055	9,180
April 5, 2022	April 5, 2027	\$100,000	6,497	5,087
Total			\$ 12,677	\$ 14,456

On June 11, 2021, the Company terminated its existing swap agreement (the “2020 Swap Agreement”) and entered into an interest rate swap agreement (the “2021 Swap Agreement”) with a notional amount of \$200,000. On April 5, 2022, the Company terminated its 2021 Swap Agreement and entered into a new interest rate swap agreement (the “2022 Swap Agreement”) with a notional amount of \$100,000. The terminated 2020 and 2021 Swap Agreements resulted in unrealized gains of \$324 and \$12,270, respectively, at the termination dates that will continue to be accounted for in accumulated other comprehensive income and amortized into earnings over the term of the associated debt instrument.

The 2022 Swap Agreement has a maturity date of April 5, 2027 and is indexed to a three-month Term SOFR (as defined in the 2022 Swap Agreement). The 2022 Swap Agreement met the criteria as a cash flow hedge under ASC 815, Derivatives and Hedging (“ASC 815”), and is recorded to other assets or other liabilities on the condensed consolidated balance sheets. Refer to [Note 10 - Fair Value Measurements and Financial Instruments](#) for additional information on determining the fair value. The unrealized gains or losses, after tax, will be recorded in accumulated other comprehensive income, a component of equity, and are expected to be reclassified into interest expense on the condensed consolidated statements of income when the forecasted transactions affect earnings. As required under ASC 815, the interest rate swap contracts’ effectiveness will be assessed on a quarterly basis using a quantitative regression analysis.

The gains and losses, net of tax, related to the effective portion of derivative instruments designated as cash flow hedges recognized in other comprehensive income for the three and nine months ended September 29, 2023 were a loss of \$281 and \$2,219, respectively; and for the three and nine months ended September 30, 2022 were a gain of \$2,563 and \$9,296, respectively.

Over the next twelve months, the Company expects to recognize \$7,167 of the \$12,677 of unrealized gains included in accumulated other comprehensive income related to the interest rate swap contracts.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

10. Fair Value Measurements and Financial Instruments

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:

	September 29, 2023				December 30, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Interest Rate Swap	\$ —	\$ 6,497	\$ —	\$ 6,497	\$ —	\$ 5,087	\$ —	\$ 5,087
Total assets measured at fair value	<u>\$ —</u>	<u>\$ 6,497</u>	<u>\$ —</u>	<u>\$ 6,497</u>	<u>\$ —</u>	<u>\$ 5,087</u>	<u>\$ —</u>	<u>\$ 5,087</u>

There were no transfers of assets or liabilities between Level 1, Level 2, and Level 3 categories of the fair value hierarchy during the three and nine month periods ended September 29, 2023.

On June 11, 2021, the Company entered into the 2021 Swap Agreement to mitigate the cash flow risk associated with changes in interest rates on its variable rate debt. On April 5, 2022, the Company terminated its 2021 Swap Agreement and entered into the 2022 Swap Agreement. Refer to [Note 9 - Derivatives and Hedging](#) for additional details of the agreement. In accordance with ASC 815, an interest rate swap contract is recognized as an asset or liability on the condensed consolidated balance sheets and is measured at fair value. The fair value was calculated utilizing Level 2 inputs.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

11. Stockholders' Equity**Equity Incentive Plans**

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

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Cost of sales	\$ 330	\$ 292	\$ 903	\$ 701
Sales and marketing	418	227	1,096	680
Research and development	331	215	834	705
General and administrative	2,779	3,555	11,209	9,293
Total	<u>\$ 3,858</u>	<u>\$ 4,289</u>	<u>\$ 14,042</u>	<u>\$ 11,379</u>

The following table summarizes the activity for the Company's unvested restricted stock units ("RSUs") for the nine months ended September 29, 2023:

	Unvested RSUs	
	Number of shares outstanding	Weighted-average grant date fair value
Unvested at December 30, 2022	297	\$ 87.05
Granted	129	\$ 111.11
Canceled	(26)	\$ 86.29
Vested	(139)	\$ 83.85
Unvested at September 29, 2023	<u>261</u>	<u>\$ 111.00</u>

As of September 29, 2023, the Company had approximately \$19,744 of unrecognized stock-based compensation expense related to RSUs, which will be recognized over the remaining weighted-average vesting period of approximately 1.92 years.

During the nine months ended September 29, 2023, the Company issued performance share units ("PSUs") to certain executives that represent shares potentially issuable in the future. Issuance is based upon the Company's performance, over a 3 year performance period, on certain measures including return on invested capital and free cash flow. The PSUs vest only upon the achievement of the applicable performance goals for the performance period, and, depending on the actual achievement on the performance goals, the grantee may earn between 0% and 200% of the target PSUs. The fair value of PSUs is calculated based on the stock price on the date of grant assuming the performance goals will be achieved.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

The following table summarizes the activity for the Company's unvested PSUs for the nine months ended September 29, 2023:

	Unvested PSUs	
	Number of shares outstanding	Weighted-average grant date fair value
Unvested at December 30, 2022	48	\$ 126.69
Granted	44	\$ 115.70
Canceled	(9)	\$ 119.93
Unvested at September 29, 2023	83	\$ 139.95

The stock-based compensation expense recognized each period is dependent upon our estimate of the number of shares that will ultimately vest based on the achievement of certain performance conditions. Future stock-based compensation expense for unvested performance-based awards could reach a maximum of \$10,960 assuming achievement at the maximum level. The unrecognized stock-based compensation expense is expected to be recognized over a weighted average period of 1.70 years.

12. Income Taxes

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Provision for income taxes	\$ 3,484	\$ 13,365	\$ 20,957	\$ 28,265
Effective tax rates	9.0 %	20.8 %	15.2 %	15.7 %

For the three months ended September 29, 2023, the difference between the Company's effective tax rate of 9.0% and the 21% federal statutory rate was due to a benefit from the U.S. research and development tax credit related to multiple periods and lower tax rate on foreign derived intangible income. These benefits were partially offset by other non-deductible expenses and state taxes.

For the nine months ended September 29, 2023, the difference between the Company's effective tax rate and the 21% federal statutory rate resulted primarily from a lower tax rate on foreign derived intangible income and benefit from the U.S. research and development tax credit related to multiple periods. These benefits were partially offset by other non-deductible expenses and state taxes.

For the three months ended September 30, 2022, the difference between the Company's effective tax rate of 20.8% and the 21% federal statutory rate resulted primarily from a lower tax rate on foreign derived intangible income, partially offset by withholding and state taxes.

For the nine months ended September 30, 2022, the difference between the Company's effective tax rate and the 21% federal statutory rate resulted primarily from a lower tax rate on foreign derived intangible income, and the impact of the finalized U.S. tax regulations published by the U.S. Treasury and Internal Revenue Service on January 4, 2022. These regulations limit the amount of newly generated foreign taxes that are creditable against U.S. income taxes, which resulted in a release of the Company's valuation allowance against foreign tax credits due to the Company's ability to use foreign tax credit carryforwards that had previously been reserved against. These benefits were partially offset by withholding and state taxes.

We do not expect the results from any ongoing income tax audits to have a material impact on our consolidated financial condition, results of operations, or cash flows.

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

13. Related Party Transactions

On July 22, 2020, the Company, pursuant to a stock purchase agreement with Flagship, Inc., purchased the remaining 20% interest of FF US Holding Corp. for \$24,975 payable in a combination of stock and cash. The cash portion was settled in quarterly installment payments through July 2022. Refer to [Note 8 - Commitments and Contingencies](#) for additional details of this agreement.

14. Acquisitions

On February 17, 2023 the Company entered into a Securities Purchase Agreement with CWH Holdco, LLC (“CWH”), CWH Blocker Corp., (“Blocker”), Thompson Street Capital Partners V, L.P., and each other member of CWH to purchase all of the outstanding equity of Blocker, and thereafter Blocker acquired all of the outstanding equity interest of CWH. CWH is the parent company of Custom Wheel House, LLC (“Custom Wheel House”). Custom Wheel House is a designer, marketer, and distributor of high-performance wheels, performance off-road tires, and accessories, including the premier flagship brand Method Race Wheels. The Company believes that this acquisition will be complementary to its upfitting businesses and will help to expand its product offerings. This acquisition was financed through the Company’s existing 2022 Credit Facility. The acquisition was closed on March 3, 2023 and accounted for as a business combination.

The purchase price of Custom Wheel House has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated respective fair values as of March 3, 2023 with the excess purchase price allocated to goodwill. The Company’s valuation is preliminary and subject to the Company’s validation of deferred taxes. The Company expects to amortize the acquired trade name, customer relationship and core technology assets over their expected useful lives that range between two and seven years. The acquired goodwill represents the value of combining operations of Custom Wheel House and the Company, and is expected to be partially deductible for tax purposes. During the nine months ended September 29, 2023, the Company updated the purchase price allocation and recorded adjustments to net assets of \$745, identified intangible assets of \$4,337, and goodwill of \$5,082. 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	\$	130,918
Total consideration at closing	\$	<u>130,918</u>

Fair market values

Inventory	\$	23,266
Other current assets		4,243
Property, plant and equipment		3,529
Lease right-of-use assets		4,718
Intangibles		48,663
Goodwill		<u>62,000</u>
Total assets acquired		146,419

Accounts payable and accrued expenses		10,783
Current portion of lease liabilities		1,694
Lease liabilities		<u>3,024</u>
Total liabilities assumed		15,501
Purchase price allocation	\$	<u>130,918</u>

FOX FACTORY HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except per share data)
(unaudited)

The Company incurred \$929 of transaction costs related to the acquisition of Custom Wheel House during the nine months ended September 29, 2023. These costs are classified as general and administrative expenses in the accompanying condensed consolidated statements of income.

The results of operations for Custom Wheel House have been included in the Company's condensed consolidated statements of income since the closing date of the acquisition on March 3, 2023. The total revenue and net income from operations for Custom Wheel House for the three months ended September 29, 2023 amounted to \$19,331 and \$1,296, respectively. The total revenue and net loss from operations for Custom Wheel House for the nine months ended September 29, 2023 amounted to \$46,016 and \$5,252, respectively.

Pro-forma financial information of the combined entities is not presented due to the immaterial impact of the financial results of the acquired entity on our consolidated financial statements.

15. Subsequent Events

Marucci Sports, LLC (“Marucci”) Transaction

On November 1, 2023 the Company’s subsidiary, Fox Factory, Inc., entered into an Agreement and Plan of Merger (the “Marucci Merger Agreement”) by and among Fox Factory, Inc., Marucci Merger Sub, Inc., a wholly-owned subsidiary of Fox Factory, Inc. (“Merger Sub”), Wheelhouse Holdings Inc. (“Wheelhouse”) and Compass Group Diversified Holdings LLC, as representative of the Wheelhouse equity holders. Pursuant to the Marucci Merger Agreement, the Merger Sub will merge with and into Wheelhouse with Wheelhouse surviving as a wholly-owned subsidiary of Fox Factory, Inc. (the “Marucci Merger”). Pursuant to the Marucci Merger, Fox Factory, Inc. will acquire substantially all the issued and outstanding capital stock of Wheelhouse Holdings, Inc., the parent company of Marucci, at an enterprise value of \$572,000, subject to various adjustments described in the Marucci Merger Agreement. Marucci, based in Baton Rouge, Louisiana, is a leading designer, manufacturer, and marketer of highly engineered premium wood, aluminum and composite baseball bats as well as other diamond sports products. The Company believes that this transaction will be complementary to its technology innovation and brand value and will help to expand its product offerings. The transaction, which is subject to various closing conditions, is expected to close in the fourth quarter of 2023.

The transaction will be financed through a term loan from an amendment to the 2022 Credit Facility.

Amendment to 2022 Credit Facility

On November 1, 2023, the Company entered into a commitment letter (the “Debt Commitment Letter”) with certain lenders party to the 2022 Credit Facility (collectively, the “Commitment Parties”) pursuant to which the Commitment Parties have agreed to provide the Company with a term loan in an amount not to exceed \$400,000 and a delayed draw term loan in an amount not to exceed \$200,000 (collectively, the “Incremental Term Loans”), each of which are permitted under the 2022 Credit Facility. The Incremental Term Loans will support the Company’s capital allocation strategy, including funding a portion of the acquisition consideration owed under the Marucci transaction. The funding of the Incremental Term Loans provided for in the Debt Commitment Letter are contingent on satisfaction of customary conditions, including, among other things, (i) the execution and delivery of the amendment to the 2022 Credit Facility and (ii) the consummation of the Marucci transaction. The amendment to the 2022 Credit Facility will be effective on the closing date of the Marucci transaction and has not been finalized; accordingly, the actual terms may differ from the description of such terms in the Debt Commitment Letter.

Share Repurchase Plan

On November 1, 2023, the Company’s Board of Directors authorized a share repurchase plan for up to \$300,000 in shares of the Company’s common stock, par value \$0.001 per share. The share repurchase program is scheduled to expire on November 1, 2028. Repurchases of shares of Common Stock under the stock repurchase plan will be made in accordance with applicable securities laws and may be made under a variety of methods, which may include open market purchases. The stock repurchase program does not obligate the Company to acquire any particular amount of common stock, and it may be suspended or terminated at any time at the Company’s discretion.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2022, as filed with the SEC on February 23, 2023, and our other reports and registration statements that we file with the SEC from time to time. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in the "Risk Factors" section included in Part II, Item 1A.

Unless the context otherwise requires, the terms "FOX," the "Company," "we," "us," and "our" in this Quarterly Report on Form 10-Q refer to Fox Factory Holding Corp. and its operating subsidiaries on a consolidated basis.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements, which are subject to the "safe harbor" created by Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We may make forward-looking statements in our SEC filings, press releases, news articles, earnings presentations and when we are speaking on behalf of the Company. Forward-looking statements generally relate to future events or our future financial or operating performance that 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 Quarterly Report on Form 10-Q are subject to numerous risks and uncertainties, including but not limited to risks related to:

- the spread of highly infectious or contagious disease, such as COVID-19, could cause severe disruptions in the U.S. and global economy, which could in turn disrupt the business activities and operations of our customers, as well as our businesses and operations;
- changes in general economic conditions, including market and macro-economic disruptions resulting from escalating tensions between China and Taiwan, the on-going Russian war in Ukraine or due to growing inflation or higher interest rates;
- our dependency on a limited number of suppliers for materials, product parts, and vehicle chassis could lead to an increase in material costs, disruptions in our supply chain, or reputational costs;
- 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;

[Table of Contents](#)

- 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;
- changes in the relative proportion of profit earned in the numerous jurisdictions in which we do business and in tax legislation, case law and other authoritative guidance in those jurisdictions;
- product recalls and product liability claims; and
- future economic or market conditions.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects and the outcomes of any of the events described in any forward-looking statements are subject to risks, uncertainties, and other factors. In addition to the risks, uncertainties and other factors discussed above and elsewhere in this Quarterly Report on Form 10-Q, the risks, uncertainties and other factors expressed or implied in Part I, Item 1A. “Risk Factors” of our 2022 Annual Report on Form 10-K, as filed with the SEC on February 23, 2023, could cause or contribute to actual results differing materially from those set forth in any forward-looking statement. Moreover, we operate in a very competitive and challenging environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur. Actual results, events, or circumstances could differ materially from those contemplated by, set forth in, or underlying any forward-looking statements. For all of these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements in Section 27A of the Securities Act and Section 21E of the Exchange Act.

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

Critical Accounting Policies and Estimates

There have been no changes to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 30, 2022, as filed with the SEC on February 23, 2023, that have had a material impact on our condensed consolidated financial statements and related notes.

Recent Accounting Pronouncements

See [Note 1 - Description of the Business, Basis of Presentation, and Summary of Significant Accounting Policies](#) to the accompanying notes to unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further details regarding this topic.

United Auto Workers Strike

On September 15, 2023, the United Auto Workers (“UAW”) union began a strike at certain of our OEM customers’ U.S. facilities. The strike had an undesirable impact on our sales for the three months ended September 29, 2023. Although the union has reached tentative agreements with the automakers, we expect the impact to continue to affect our business in the future periods as our OEM customers recover from the strike.

Results of Operations

The table below summarizes our results of operations:

(in thousands)	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Net sales	\$ 331,117	\$ 409,168	\$ 1,131,683	\$ 1,193,850
Cost of sales	223,890	271,901	759,132	793,379
Gross profit	107,227	137,267	372,551	400,471
Operating expenses:				
General and administrative	25,710	29,171	89,692	83,182
Sales and marketing	24,439	23,508	74,664	70,272
Research and development	8,904	13,955	39,374	40,811
Amortization of purchased intangibles	6,809	5,271	19,982	16,214
Total operating expenses	65,862	71,905	223,712	210,479
Income from operations	41,365	65,362	148,839	189,992
Interest expense	3,466	2,667	11,405	6,341
Other (income) expense, net	(878)	(1,441)	(318)	3,067
Income before income taxes	38,777	64,136	137,752	180,584
Provision for income taxes	3,484	13,365	20,957	28,265
Net income	\$ 35,293	\$ 50,771	\$ 116,795	\$ 152,319

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

	For the three months ended		For the nine months ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	67.6	66.5	67.1	66.5
Gross profit	32.4	33.5	32.9	33.5
Operating expenses:				
General and administrative	7.8	7.1	7.9	7.0
Sales and marketing	7.4	5.7	6.6	5.9
Research and development	2.7	3.4	3.5	3.4
Amortization of purchased intangibles	2.1	1.3	1.8	1.4
Total operating expenses	19.9	17.6	19.8	17.6
Income from operations	12.5	16.0	13.2	15.9
Interest expense	1.0	0.7	1.0	0.5
Other (income) expense, net	(0.3)	(0.4)	—	0.3
Income before income taxes	11.7	15.7	12.2	15.1
Provision for income taxes	1.1	3.3	1.9	2.4
Net income	10.7 %	12.4 %	10.3 %	12.8 %

*Percentages may not foot due to rounding.

Three months ended September 29, 2023 compared to three months ended September 30, 2022
Net sales

(in millions)	For the three months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Powered Vehicle Group	\$ 123.1	\$ 109.5	\$ 13.6	12.4 %
Aftermarket Applications Group	136.0	125.7	10.3	8.2
Specialty Sports Group	72.0	174.0	(102.0)	(58.6)
Total net sales	\$ 331.1	\$ 409.2	\$ (78.1)	(19.1)%

Total net sales for the three months ended September 29, 2023 decreased \$78.1 million, or 19.1%, compared to the three months ended September 30, 2022. Specialty Sports Group net sales decreased by \$102.0 million, or 58.6%, due to the impacts of higher levels of inventory across various channels. Powered Vehicle Group net sales increased by \$13.6 million, or 12.4%, due to increased demand in the OEM channel, partially offset by the impact of the UAW strike. Aftermarket Applications Group net sales increased by \$10.3 million, or 8.2%, due to the inclusion of revenue from our Custom Wheel House subsidiary, which was acquired in March 2023, partially offset by the impact of the UAW strike.

Cost of sales

(in millions)	For the three months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Cost of sales	\$ 223.9	\$ 271.9	\$ (48.0)	(17.7)%

Cost of sales for the three months ended September 29, 2023 decreased \$48.0 million, or 17.7%, compared to the three months ended September 30, 2022. The decrease in cost of sales was due to our decreased sales partially offset by certain business factors affecting gross margin, which are discussed below.

Our gross margin decreased 110 basis points to 32.4% for the three months ended September 29, 2023 as compared to the same prior fiscal year period primarily due to a shift in our product line mix and costs associated with keeping our skilled workforce as production slowed due to the UAW strike, offset by increased efficiencies at our North American facilities.

Operating expenses

(in millions)	For the three months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Operating expenses:				
General and administrative	\$ 25.7	\$ 29.1	\$ (3.4)	(11.7)%
Sales and marketing	24.5	23.5	1.0	4.3
Research and development	8.9	14.0	(5.1)	(36.4)
Amortization of purchased intangibles	6.8	5.3	1.5	28.3
Total operating expenses	\$ 65.9	\$ 71.9	\$ (6.0)	(8.3)%

Total operating expenses for the three months ended September 29, 2023 were \$65.9 million compared to \$71.9 million for the three months ended September 30, 2022. General and administrative expenses decreased \$3.4 million and sales and marketing expenses increased \$1.0 million primarily due to strong cost controls offset by the inclusion of Custom Wheel House operating costs. Amortization of purchased intangibles increased by \$1.5 million mainly due to amortization of additional acquired intangibles.

[Table of Contents](#)*Income from operations*

(in millions)	For the three months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Income from operations	\$ 41.4	\$ 65.4	\$ (24.0)	(36.7)%

As a result of the factors discussed above, income from operations for the three months ended September 29, 2023 decreased \$24.0 million, or 36.7%, compared to income from operations for the three months ended September 30, 2022.

Interest and other expense, net

(in millions)	For the three months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Interest expense	\$ 3.5	\$ 2.7	\$ 0.8	29.6 %
Other (income) expense, net	(0.9)	(1.4)	0.5	(35.7)
Interest and other expense, net	\$ 2.6	\$ 1.3	\$ 1.3	100.0 %

Interest and other expense, net for the three months ended September 29, 2023 increased by \$1.3 million to \$2.6 million compared to \$1.3 million for the three months ended September 30, 2022. Interest expense increased by \$0.8 million due to higher interest rates.

Income taxes

(in millions)	For the three months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Provision for income taxes	\$ 3.5	\$ 13.4	\$ (9.9)	(73.9)%

The effective tax rates were 9.0% and 20.8% for the three month periods ended September 29, 2023 and September 30, 2022, respectively.

For the three months ended September 29, 2023, the difference between the Company's effective tax rate of 9.0% and the 21% federal statutory rate was due to a benefit from the U.S. research and development tax credit related to multiple periods and a lower tax rate on foreign derived intangible income. These benefits were partially offset by other non-deductible expenses and state taxes.

For the three months ended September 30, 2022, the difference between our effective tax rate of 20.8% and the 21% federal statutory rate resulted primarily from a lower tax rate on foreign derived intangible income and excess benefits related to stock-based compensation. The benefits were partially offset by withholding and state taxes.

Net income

(in millions)	For the three months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Net income	\$ 35.3	\$ 50.8	\$ (15.5)	(30.5)%

As a result of the factors described above, our net income decreased \$15.5 million, or 30.5%, to \$35.3 million in the three months ended September 29, 2023 from \$50.8 million for the three months ended September 30, 2022.

Nine months ended September 29, 2023 compared to nine months ended September 30, 2022

Net sales

(in millions)	For the nine months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Powered Vehicle Group	\$ 405.5	\$ 299.8	\$ 105.7	35.4 %
Aftermarket Applications Group	430.4	372.5	57.9	15.5
Specialty Sports Group	295.8	521.5	(225.7)	(43.3)
Total net sales	\$ 1,131.7	\$ 1,193.8	\$ (62.1)	(5.2)%

Total net sales for the nine months ended September 29, 2023 decreased \$62.1 million, or 5.2%, compared to the nine months ended September 30, 2022. Specialty Sports Group product net sales decreased by \$225.7 million, or 43.3%, due to the impacts of higher levels of inventory across various channels. Powered Vehicle Group net sales increased by \$105.7 million, or 35.4%, mainly due to increased demand in the OEM channel, partially offset by the impact of the UAW strike. Aftermarket Applications Group net sales increased by \$57.9 million, or 15.5%, primarily due to the inclusion of revenue from our Custom Wheel House subsidiary, which was acquired in March 2023, and strong performance in our upfitting product lines.

Cost of sales

(in millions)	For the nine months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Cost of sales	\$ 759.1	\$ 793.4	\$ (34.3)	(4.3)%

Cost of sales for the nine months ended September 29, 2023 decreased \$34.3 million, or 4.3%, compared to the nine months ended September 30, 2022. The decrease in cost of sales was due to our decreased sales partially offset by certain business factors affecting gross margin, which are discussed below.

Our gross margin decreased 60 basis points to 32.9% for the three months ended September 29, 2023 as compared to the same prior fiscal year period primarily due to a shift in our product line mix and amortization of acquired inventory valuation markups, offset by increased efficiencies at our North American facilities.

Operating expenses

(in millions)	For the nine months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Operating expenses:				
General and administrative	\$ 89.7	\$ 83.2	\$ 6.5	7.8 %
Sales and marketing	74.7	70.3	4.4	6.3
Research and development	39.4	40.8	(1.4)	(3.4)
Amortization of purchased intangibles	20.0	16.2	3.8	23.5
Total operating expenses	\$ 223.7	\$ 210.5	\$ 13.2	6.3 %

Total operating expenses for the nine months ended September 29, 2023 were \$223.7 million compared to \$210.5 million for the nine months ended September 30, 2022. General and administrative expenses increased by \$6.5 million primarily due to operating expenses associated with facility expansion and the inclusion of Custom Wheel House operating expenses of \$3.0 million partially offset by strong cost controls. Sales and marketing expenses increased \$4.4 million primarily due to the inclusion of \$7.4 million Custom Wheel House operating expenses offset by strong cost controls. Research and development costs decreased \$1.4 million primarily due to additional benefit from a state research and development tax credit. Amortization of purchased intangibles increased by \$3.8 million mainly due to the amortization of additional acquired intangibles.

[Table of Contents](#)*Income from operations*

(in millions)	For the nine months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Income from operations	\$ 148.8	\$ 190.0	\$ (41.2)	(21.7)%

As a result of the factors discussed above, income from operations for the nine months ended September 29, 2023 decreased \$41.2 million, or 21.7% , compared to income from operations for the nine months ended September 30, 2022.

Interest and other expense, net

(in millions)	For the nine months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Interest expense	\$ 11.4	\$ 6.3	\$ 5.1	81.0 %
Other (income) expense, net	(0.3)	3.1	(3.4)	(109.7)
Interest and other expense, net	\$ 11.1	\$ 9.4	\$ 1.7	18.1 %

Interest and other expense, net for the nine months ended September 29, 2023 increased by \$1.7 million to \$11.1 million compared to \$9.4 million for the nine months ended September 30, 2022. Interest expense increased by \$5.1 million due to higher interest rates. Other income, net increased \$3.4 million primarily due lower losses on foreign currency transactions.

Income taxes

(in millions)	For the nine months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Provision for income taxes	\$ 21.0	\$ 28.3	\$ (7.3)	(25.8)%

The effective tax rates were 15.2% and 15.7% for the nine month periods ended September 29, 2023 and September 30, 2022, respectively.

For the nine months ended September 29, 2023, the difference between the Company's effective tax rate of 15.2% and the 21% federal statutory rate resulted primarily from a lower tax rate on foreign derived intangible income and benefit from the U.S. research and development tax credit related to multiple periods. These benefits were partially offset by other non-deductible expenses and state taxes.

For the nine months ended September 30, 2022, the difference between our effective tax rate of 15.7% and the 21% federal statutory rate resulted primarily from the impact of the recently finalized U.S. tax regulations published by the U.S. Treasury and Internal Revenue Service on January 4, 2022 and from a lower tax rate on foreign derived intangible income. These regulations limit the amount of newly generated foreign taxes that are creditable against U.S. income taxes, which resulted in a release of the Company's valuation allowance against foreign tax credits due to the Company's ability to use foreign tax credit carryforwards that had previously been reserved against. These benefits were partially offset by withholding and state taxes.

Net income

(in millions)	For the nine months ended		Change (\$)	Change (%)
	September 29, 2023	September 30, 2022		
Net income	\$ 116.8	\$ 152.3	\$ (35.5)	(23.3)%

As a result of the factors described above, our net income decreased \$35.5 million, or 23.3%, to \$116.8 million in the nine months ended September 29, 2023 from \$152.3 million for the nine months ended September 30, 2022.

Liquidity and Capital Resources

Our primary cash needs are to support working capital, interest on debt, employee compensation, capital expenditures, acquisitions, debt repayments, and other general corporate purposes. Historically, we have generally financed our liquidity needs with operating cash flows, borrowings under our Prior Credit Facility and our 2022 Credit Facility, and the issuance of common stock. These sources of liquidity may be impacted by events described in [Cautionary Note Regarding Forward-Looking Statements](#) and [Item 1A. Risk Factors](#).

As of September 29, 2023, we held \$37.0 million of our \$90.6 million of cash and cash equivalents in accounts of our subsidiaries outside of the U.S., which we may repatriate.

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

(in millions)	For the nine months ended	
	September 29, 2023	September 30, 2022
Net cash provided by operating activities	\$ 126.7	\$ 57.0
Net cash used in investing activities	(165.4)	(32.4)
Net cash used in financing activities	(16.2)	(54.0)
Effect of exchange rate changes on cash and cash equivalents	0.3	2.8
Change in cash and cash equivalents	\$ (54.6)	\$ (26.5)

**Amounts may not foot due to rounding.*

We expect that cash on hand, cash flow from operations and availability under our 2022 Credit Facility will be sufficient to fund our operations during the next 12 months from the date of this Form 10-Q and beyond.

Operating activities

In the nine months ended September 29, 2023, net cash provided by operating activities was \$126.7 million. Our investment in operating assets and liabilities is a result of increases in prepaids and other assets of \$53.1 million primarily due to carrying more chassis to meet current year production needs for the upfitting product lines, and decreases in accounts payable of \$51.4 million, income taxes payable of \$20.4 million and accrued expenses and other liabilities of \$7.2 million, partially offset by decreases in accounts receivable of \$53.3 million and inventory of \$24.3 million. The change in our accounts receivable reflects a shift in our product line mix and the timing of customer collections. The change in our accounts payable is driven by timing of inventory purchases and vendor payments. The change in accrued expenses and other liabilities is primarily due to payments made for compensation and tax related accruals. The decrease in inventory reflects our continued efforts to optimize inventory levels.

In the nine months ended September 30, 2022, net cash provided by operating activities was \$57.0 million. Our investment in operating assets and liabilities is a result of increases in inventory of \$84.8 million, accounts receivable of \$60.0 million, and prepaids and other assets of \$55.0 million, partially offset by an increase in accounts payable of \$43.4 million, accrued expenses and other liabilities of \$22.4 million and income taxes payable of \$4.2 million. The change in inventory is due to several factors, including receipt of long lead time items that had been delayed, higher levels of safety stock to mitigate uncertainty and the result of normal growth to meet anticipated demand. The changes in accounts receivable and accounts payable reflect business growth and the timing of vendor payments. The change in prepaids and other assets is due to increased chassis deposits to secure supply for our upfitting business for the remainder of the year. The change in accrued expenses and other liabilities and income taxes is due to increases in sales rebates, compensation related accruals and income tax payables, as well as normal business growth and the timing of such payments.

Investing activities

In the nine months ended September 29, 2023 and September 30, 2022, net cash used in investing activities consisted of \$165.4 million and \$32.4 million, respectively. Investing activities for the nine months ended September 29, 2023 consisted of \$130.9 million of cash consideration for our purchase of Custom Wheel House, \$32.0 million of property and equipment additions and \$2.4 million in cash consideration for our purchase of other assets. Investing activities for the nine months ended September 30, 2022 consisted of \$35.6 million of property and equipment additions, partially offset by proceeds from the sale of property and equipment of \$3.2 million.

Financing activities

In the nine months ended September 29, 2023, net cash provided by financing activities was \$16.2 million, and consisted of the proceeds from our 2022 Credit Facility of \$210.0 million that were used to support our working capital and the purchase of Custom Wheel House, offset by payments of \$220.0 million to reduce the revolver borrowings and payments of \$6.2 million to repurchase shares of our common stock to cover withholding taxes from our stock-based compensation program.

In the nine months ended September 30, 2022, net cash used in financing activities was \$54.0 million, and consisted of the repayment of our term debt upon the refinancing of our Prior Credit Facility of \$382.5 million, payments made on our line of credit of \$259.3 million, payments of \$4.1 million to repurchase shares of our common stock, net of proceeds from our stock-based compensation program, and \$2.7 million in installment payments related to the purchase of the Tuscany non-controlling interest. These changes were partially offset by net proceeds from our 2022 Credit Facility of \$582.4 million, which was used to refinance our Prior Credit Facility, and proceeds from the termination of our 2021 Swap Agreement of \$12.3 million.

Prior Credit Facility

In June 2019, the Company entered into a credit facility with Bank of America and other named lenders, which was periodically amended and restated and/or amended. The credit facility was amended and restated on March 11, 2020, and further amended on June 19, 2020, and June 11, 2021 (as amended, the “Prior Credit Facility”). The Prior Credit Facility (which was terminated on April 5, 2022 and replaced with the 2022 Credit Facility (as discussed below)), would have matured on March 11, 2025, and provided a senior secured revolving line of credit with a borrowing capacity of \$250.0 million and a term loan of \$400.0 million. The term loan was subject to quarterly amortization payments.

2022 Credit Facility

On April 5, 2022, the Company entered into a new credit agreement with Wells Fargo Bank, National Association, and other named lenders (the “2022 Credit Facility”), and concurrently repaid in full and terminated the Prior Credit Facility. The 2022 Credit Facility, which matures on April 5, 2027, provides for revolving loans, swingline loans and letters of credit up to an aggregate amount of \$650.0 million.

On April 5, 2022, the Company borrowed \$475.0 million under the 2022 Credit Facility, which was used to repay all outstanding amounts owed under the Prior Credit Facility and for general corporate purposes. Future advances under the 2022 Credit Facility will be used to finance working capital, capital expenditures and other general corporate purposes of the Company. To the extent not previously paid, all then-outstanding amounts under the 2022 Credit Facility are due and payable on the maturity date.

The Company paid \$2.0 million in debt issuance costs in connection with the 2022 Credit Facility, which were allocated to the line of credit and amortized on a straight-line basis over the term of the facility. Additionally, the Company had \$4.5 million of remaining unamortized debt issuance costs related to the Prior Credit Facility. The Company expensed \$1.9 million of the remaining unamortized debt issuance costs and allocated \$2.5 million to the 2022 Credit Facility.

The Company may borrow, prepay and re-borrow principal under the 2022 Credit Facility during its term. Advances under the 2022 Credit Facility can be either Adjusted Term SOFR loans or base rate loans. SOFR rate revolving loans bear interest on the outstanding principal amount thereof for each interest period at a rate per annum equal to Term SOFR for such calculation plus 0.10% plus a margin ranging from 1.00% to 2.00%. Base rate revolving loans bear interest on the outstanding principal amount thereof at a rate per annum equal to the highest of (i) Federal Funds Rate plus 0.50%, (ii) the rate of interest in effect for such day as publicly announced from time to time by the lender as its “prime rate”, and (iii) Adjusted Term SOFR rate for a one-month tenor plus 1.00%, subject to the interest rate floors set forth therein, plus a margin ranging from 0.00% to 1.00%. At September 29, 2023, the one-month SOFR and three-month SOFR rates were 5.32% and 5.27%, respectively. At September 29, 2023, our weighted-average interest rate on outstanding borrowing was 5.31%.

The 2022 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 requires that the Company satisfy customary financial ratios. The Company was in compliance with the covenants as of September 29, 2023.

Material Cash Requirements

There have been no material changes to the information in our material cash requirements related to commitments or contractual obligations from those reported in our Annual Report on Form 10-K for the fiscal year ended December 30, 2022, as filed with the SEC on February 23, 2023.

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 have and could continue to have an adverse impact on our business, financial condition and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the disclosures discussed in the section “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2022, as filed with the SEC on February 23, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management, under the direction and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 29, 2023. Based on the evaluation of our disclosure controls and procedures as of September 29, 2023, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is involved in legal proceedings that arise in the ordinary course of business. Although the Company cannot assure the outcome of any such legal proceedings, based on information currently available, management does not believe that the ultimate resolution of any pending matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

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

Summary of Risk Factors

The risks described below include, but are not limited to, the following:

Risks Related to Our Business and Operations

- our performance-defining products, and the bikes and powered vehicles into which they are incorporated, are discretionary purchases and may be adversely impacted by changes in the economy, a shrinking market for these powered vehicles, or a material decline in demand for the high-end bikes that make up a significant portion of our sales;
- our dependency on a limited number of suppliers for materials, product parts, and vehicle chassis could lead to an increase in material costs, disruptions in our supply chain, or reputational costs;
- the impact of the risks associated with international geopolitical conflicts, including continuing tensions between Taiwan and China, and the Russian invasion of Ukraine on the global economy, energy supplies and raw materials are uncertain, but may prove to negatively impact our business and operations;
- failure to effectively compete against competitors, enhance existing products or develop, manufacture and market new products that respond to consumer needs and preferences and achieve market acceptance could result in a decrease in demand for our products and negatively impact our business and financial results;
- changes in our customer, channel and product mix could place demands that are more rigorous on our infrastructure and cause our profitability percentages to fluctuate;
- our business, financial condition and results of operations have been and may continue to be adversely affected by global public health epidemics or pandemics, including the ongoing COVID-19 pandemic;
- a disruption in the operations of our facilities or along our global supply chain, such as work stoppages, or delays in our planned expansion of certain facilities, could have a negative effect on our business, financial condition or results of operations;
- our business depends substantially on our ability to maintain our premium brand image and to attract and retain experienced and qualified talent, including our senior management team;
- 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;
- the loss of the support of professional athletes for our products, or the inability to attract new professional athletes or disruption in relationships with dealers and distributors may harm our business;
- our business is dependent in large part on our relationships with dealers and distributors and their success and the orders we receive from our OEM customers and from their success. The loss of all or a substantial portion of our sales to any of these customers could have a material adverse impact on us and our results of operations;
- our international operations are exposed to risks associated with conducting business globally, including currency exchange rate fluctuations and policies related to global trade and tariffs;
- our sales could be impacted by the disruption of sales by other bike component manufacturers or if other bike component manufacturers enter into the specialty bike component market;
- if we are unable to enforce our intellectual property rights, our reputation and sales could be adversely affected, while intellectual property disputes could lead to significant costs or the inability to sell products;
- 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;
- 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;
- an adverse determination in any material product liability claim against us could adversely affect our operating results or financial condition;

Table of Contents

- we are subject to certain risks in our manufacturing and in the testing of our products;
- fuel shortages, or high prices for fuel, could have a negative effect on the use of powered vehicles that use our products;
- 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, if we or our vendors or commercial partners experience an interruption in our operations, or if we are impacted by cybersecurity attacks, our business could suffer;
- we have grown and may continue to grow in the future through acquisitions, and we may not be able to effectively integrate businesses we acquire or we may not be able to identify or complete 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;
- growth in our sales and the mix of domestic versus export shipments from Taiwan could cause additional foreign tax credits to not be realizable, potentially reducing our income and adversely affecting our cash flows;
- the current inflation affecting the economy and the Federal Reserve's repeated interest rate increases in response, could negatively impact our cash flows due to higher debt costs or negatively impact our customers' ability to finance powered vehicles or bikes that include our products;

Risks Related to Our Indebtedness and Liquidity

- our 2022 Credit Facility places operating restrictions on us and creates default risks, and the variable rate makes us more vulnerable to increases in interest rates;
- 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;
- we may incur losses on interest rate swap and hedging arrangements;

Risks Related to Laws and Regulations

- changes in tax laws and regulations or other factors could cause our income tax obligations to increase, potentially reducing our net income and adversely affecting our cash flows;
- we are subject to extensive U.S. 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;
- unpredictability in increasingly stringent emission standards and increasing focus on environmental, social and governance responsibility, including climate change, may impose additional costs and new risks on us;
- we are subject to employment practice laws and regulations, and, as such, are exposed to litigation risks, and we may incur higher employee costs in the future;
- we retain certain personal information about individuals and are subject to various privacy and consumer protection laws;
- our vendors and any potential commercial partners may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements;

Risks Related to Ownership of Our Common Stock

- potential volatility in our trading price, publications by securities or industry analysts, and future issuances, sales, and the perception of such 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 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; and

General Risk Factors

- failure of our internal control over financial reporting could adversely affect our business and financial results.

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

The impact of the risks associated with international geopolitical conflicts, including continuing tensions between Taiwan and China, and the Russian invasion of Ukraine on the global economy, energy supplies and raw materials are uncertain, but may prove to negatively impact our business and operations.

In recent years, diplomatic and trade relationships between the U.S. government and China have become increasingly frayed and the threat of a takeover of Taiwan by China has increased. Since our bike suspension manufacturing occurs in Taiwan, our business, our operations and our supply chain could be materially and adversely impacted by political, economic or other actions from China, or changes in China-Taiwan relations that impact Taiwan and its economy. In addition, we continue to monitor any adverse impact that the outbreak of war in Ukraine and the subsequent institution of sanctions against Russia by the United States and several European and Asian countries may have on the global economy in general, on our business and operations and on the businesses and operations of our suppliers and customers. For example, a prolonged conflict may result in ongoing increased inflation, escalating energy prices and constrained availability, and thus increasing costs, of raw materials. To the extent that continuing political tensions between China and Taiwan or the war in Ukraine may adversely affect our business, it may also have the effect of heightening many of the other risks described in our risk factors, such as those relating to data security, supply chain, volatility in prices of inputs, and market conditions, any of which could negatively affect our business and financial condition.

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 that 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 of 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. Our business, financial condition or results of operations could be materially and adversely impacted if we experience difficulties with our suppliers or manufacturing delays caused by our suppliers, whether in connection with our manufacturing operations in the U.S. or in Taiwan.

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, we have effectively mitigated the impacts of price fluctuations for these components and raw materials 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, or there are rising prices due to overall inflationary pressures, 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.

We also have OEM partners that supply vehicle chassis used in our upfitting operations. An OEM may encounter difficulties and may be unable to deliver chassis according to our production needs, or an OEM may choose to discontinue supplying chassis for other reasons. Any interruption or discontinuation in the availability of chassis may result in increased production costs, delays in the delivery of our products, and lost sales, which could have an adverse effect on our business and financial condition.

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 for not only 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 \$56.2 million, \$46.6 million and \$34.3 million for our research and development efforts in fiscal years 2022, 2021 and 2020, 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. In addition, 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 bikes and powered vehicles into which they are incorporated, are discretionary purchases and may be adversely impacted by changes in the economy.

Our business depends substantially on global economic and market conditions. In particular, we believe that currently a significant majority of the end users of our products live in the U.S. and countries in Europe. These areas have historically experienced recessions, disruptions in banking and/or financial systems, economic weakness and uncertainty, and there appears to be an increasing risk of recessions or inflationary economic impacts related to lingering effects of the global COVID-19 pandemic, the Russian invasion of Ukraine, escalating energy costs, global supply chain disruptions, rising interest rates and other economic changes. In addition, many of 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, gas prices, 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.

Our business, financial condition and results of operations have been and may continue to be adversely affected by global public health epidemics or pandemics, including the ongoing COVID-19 pandemic.

We continue to face various risks related to public health issues, including epidemics, pandemics, and other outbreaks, including the ongoing COVID-19 pandemic. The impact of the COVID-19 pandemic, including changes in consumer behavior, COVID-19 pandemic fears and market downturns, and restrictions on business and individual activities, has created significant volatility in the global economy and led to reduced economic activity. There have been extraordinary actions taken by international, federal, state, and local public health and governmental authorities, most of which are no longer in effect, to contain and combat the outbreak and spread of COVID-19 in regions throughout the world, including travel bans, quarantines, “stay-at-home” orders, and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations.

These government-mandated closures, “shelter-in-place” directives, and an outbreak among, or quarantine of, the employees in any of our facilities, have caused and could continue to cause significant interruptions to, or temporary closures of our operations.

The spread of COVID-19 caused us to modify our business practices, and we may take further actions as may be required by government authorities or that we determine is in the best interests of our employees, customers, suppliers, vendors and business partners. For example, as a result of the COVID-19 pandemic, there has been an increase in the number of employees that work remotely or have a hybrid work schedule. It is possible that continued widespread remote work arrangements could have a negative impact on our operations, the execution of our business plans, productivity, the availability of key personnel and other employees necessary to conduct our business, and of third-party service providers who perform critical services for us, or otherwise cause operational failures due to changes in our normal business practices necessitated by the outbreak and related governmental actions.

These impacts have had and could continue to have a negative effect on our business, financial condition, results of operations and cash flows, as well as the trading price of our securities. Furthermore, the COVID-19 pandemic has impacted and may further impact the broader economies of affected countries, including negatively impacting economic growth, the proper functioning of financial and capital markets, foreign currency exchange rates, interest rates, and liquidity.

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

OEM dealers and distributors select our products 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 the image of our brands, we will need to maintain our position in the performance-defining products industry, continue to provide high-quality products and services, and preserve our reputation. The rising popularity of social media and other consumer-oriented technologies creates new risks and challenges that could cause damage to our brands and reputation. Social media platforms make it easy for anyone to provide public feedback that can influence perceptions of our brands, and social media platforms can also accelerate and potentially amplify the scope of negative publicity.

There can be no assurance 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 one of our sponsored athletes);
- negative publicity regarding our brands or our sponsored athletes, which could be amplified on social media;
- high-profile injury or death to one of our sponsored athletes;
- inconsistent uses of our brands and our other intellectual property assets, as well as failure to protect our intellectual property;
- changes in consumer trends and perceptions; and
- lack of investment in sponsorships, marketing and public relations.

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

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 can benefit from our products, such as trucks that are upfitted with products to enhance their off-road capability, and our ability to create products for these vehicles. Additionally, with our acquisitions of SCA, Tuscany, Outside Van, Shock Therapy, and Custom Wheel House, a growing portion of our sales are expected to be generated from providing upfitting solutions. In the event these markets stop expanding or contract due to economic factors, changes in consumer preferences or other reasons, or we are unsuccessful in creating new products for these markets or other competitors successfully enter into these markets, we may fail to achieve future growth or our sales could decrease, and our business, financial condition or results of operations could be negatively affected.

A 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 2022, approximately 42% 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.

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

We may experience changes in our customer, channel and product mix from time to time as a result of 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 demands that are more rigorous 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.

In the fourth quarter of 2021, we completed the construction of the Gainesville Facility in Hall County Georgia, to diversify our manufacturing platform and provide additional long-term capacity to support growth in our Powered Vehicles Group. The Gainesville Facility is being used for manufacturing, warehousing, distribution and office space. In the first quarter of 2022, we completed the transition of our Watsonville Facility and the relocation of our powered vehicles suspension manufacturing to the Gainesville Facility. As a result, we have incurred costs associated with some duplication of facilities, equipment and personnel, the amount of which could vary materially from our projections. Unforeseen difficulties in 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 brands and, in turn, negatively affect our business, financial condition or results of operations.

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

A portion of our goods move through ports on the Western Coast of the U.S. We have a global supply chain and we import products from our third-party vendors as well as our Fox Taiwan facility into the U.S. largely through ports on the West Coast. Dockworkers, none of whom are our employees, must offload freight from ships arriving at West Coast ports. 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 that may occur, as was experienced in February 2015, in relation to certain West Coast ports. The 2015 strike lasted longer than we forecasted, and any similar labor dispute in the future or any slowdown or stoppage relating to the ongoing labor agreement negotiations could potentially have a negative effect on both our financial condition and results of operations. Furthermore, the ongoing COVID-19 pandemic has only increased uncertainty for global supply chains, as port congestion and shipping container shortages have become exacerbated, which could adversely affect our operating results.

Work stoppages, labor disputes, and other disruptions involving our customers could also adversely affect our operating results. For example, on September 15, 2023, the UAW commenced an ongoing labor strike against Ford Motor Company, General Motors, and Stellantis after UAW was unable to reach a deal with the three automakers. Automotive OEMs are some of the largest consumers of our powered vehicle suspension products. While the duration and scope of the initial and any future UAW strikes against automakers, as well as the corresponding impact on the business of suppliers to such automakers and the impact on our own business, financial position or results of operations, are impossible to predict at this time, the prolonged idling of our customers' production facilities in response to the strikes could have a material adverse impact on us. The extent to which the UAW strikes will impact us will depend on future developments, which cannot be predicted and are highly uncertain. The ultimate impact on our business, financial position and results of operations will depend on factors beyond our control including the duration and scope of the strikes.

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, Michael C. Dennison. We do not have a “key person” life insurance policy on Mr. Dennison 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 Taiwan, California and Georgia 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 \$1,299.1 million in 2021 to approximately \$1,602.5 million in 2022. 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 current or future professional athletes and race teams do not use our products, 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, these professional athletes and race teams are no longer popular, our sponsored athletes and race teams fail to have success or 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 brands 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 or production disruptions or hiatuses 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.

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 23%, 24%, and 23% of our sales in fiscal years 2022, 2021 and 2020. 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, the loss of market share by these customers, manufacturing or other problems, including disruptions related to the COVID-19 pandemic, could have a material 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. U.S. government policy, including continued interest rate increases by the Federal Reserve, may impact the exchange rate between the U.S. dollar and foreign currencies. We sell our products inside and outside of the U.S. 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, 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 U.S. 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;
- political, economic, or other actions from China or changes in China-Taiwan relations could impact Taiwan and its economy, and may adversely affect our operations in Taiwan, our customers, and our supply chain;
- geopolitical regional conflicts, including the impact of the Russian invasion of Ukraine on the global economy, energy supplies and raw materials, terrorist activity, political unrest, civil strife, acts of war and other political uncertainty;
- 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;
- changes in tariffs, quotas, trade barriers and other similar restrictions on sales;

[Table of Contents](#)

- 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 and 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 U.S., including increased difficulty in identifying and recruiting qualified personnel for our foreign operations; and
- increased difficulty in staffing and managing foreign operations or international sales.

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

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

Most of the bikes incorporating our suspension products also 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 that 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 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 U.S. Patent and Trademark Office and a number of foreign countries, including the marks FOX® and RACE FACE®, 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. However, we may not 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 U.S., 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 that 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 U.S., 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, two or three-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; (ii) in the case of aftermarket sales, the date the product is originally purchased from an authorized dealer; or (iii) in the case of upfitting sales, the date of the retail sale to an end customer. 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 a product could underperform and require us to adjust 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 products are incorporated as original equipment on the purchased item are frequently subject to regulation by various agencies, including, for example, the NHTSA, the CPSC and/or 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. 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 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 the image of our brands 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 brands' 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 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.

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

As of September 29, 2023, we employed approximately 4,200 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. In addition, 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.

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. For example, there have been significant increases in the price of gasoline and diesel fuel due to geopolitical developments, including the impacts resulting from the Russian invasion of Ukraine, and there are heightened uncertainties regarding the future price and availability of gasoline and diesel fuel. 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 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 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. 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. Further, the evolving labor market and increased ability for employees in our industry and other industries to work from home or have remote work arrangements may impact the turnover of our employees, potentially making it more difficult for us to compete.

We maintain a self-insured healthcare plan for our employees based in the U.S. 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, implementing new functions or releases of software.

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.

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 future transformation, due to acquisition integration or business growth and consolidation, 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.

Our operations may be impaired if our technology systems fail to perform adequately and we could be negatively impacted by cybersecurity attacks and are subject to evolving privacy laws in the U.S. and other jurisdictions that could adversely impact our business and require that we incur substantial costs.

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.

The information technology systems described above are also potentially vulnerable to unauthorized access, computer viruses, ransomware software viruses and other similar types of malicious activities and cyber-attacks, including cyber-attacks to our information technology infrastructure and attempts by others to gain access to our proprietary or sensitive information, and ranging from individual attempts to advanced persistent threats. Further, ransomware attacks are becoming increasingly prevalent and severe. To alleviate the financial, operational, and reputational impact of a ransomware attack, it may be preferable to make extortion payments, but we may be unwilling or unable to do so, including, for example, if applicable laws or regulations prohibit such payments. 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. Moreover, we or our third-party vendors or business partners may be more vulnerable to such attacks in remote work environments, which have increased in response to the COVID-19 pandemic.

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 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. Similarly, the California Consumer Privacy Act (“CCPA”), which took effect on January 1, 2020, imposes additional obligations on businesses to make new disclosures about data collection, use, and sharing practices and affords consumers new rights with respect to their data. It also provides a new private right of action for data breaches. The CCPA has been amended several times, including by the California Privacy Rights Act (“CPRA”), a California ballot initiative that passed in November 2020, and took effect in most material aspects on January 1, 2023, which, among other things, significantly modifies the CCPA, including by expanding consumers’ rights with respect to certain personal information and creating a new state agency to oversee implementation and enforcement efforts. Failure to meet GDPR, CCPA and CPRA requirements could result in financial penalties. Furthermore, the CCPA and CPRA could mark the beginning of a trend toward more stringent privacy legislation in the U.S., as other states across the country are considering and proposing similar laws, and states like Virginia and Colorado have recently enacted CCPA-like laws to provide their respective residents with similar rights. Privacy laws, both domestically and internationally, are changing rapidly, including a discussion in Congress of a new federal data protection and privacy law, all of which may add additional complexity, variation in requirements, restrictions and potential legal risk, require additional investment in resources for compliance programs, and result in increased compliance costs and/or changes in business marketing practices and policies.

Our vendors’ and commercial partners’ information technology systems may fail or suffer security breaches, which could result in a material disruption of our operations.

Despite the implementation of security measures, the information technology systems of our vendors or commercial partners are vulnerable to damage from computer viruses, ransomware software viruses and other similar types of malicious activities, unauthorized access, natural disasters, and electrical failures. Such events could cause disruptions in our operations. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data, or inappropriate disclosure of confidential or proprietary information, we could be subject to litigation and reputational harm, which could materially adversely affect our financial condition, business 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 have completed several acquisitions over the past several years, including our acquisition of SCA in March 2020, Outside Van and Sola Sport Pty Ltd. (“Sola Sport”) in May 2021, Shock Therapy in December 2021, and Custom Wheel House, LLC in March 2023. Additionally, we intend to selectively evaluate additional acquisitions in the future. Any acquisitions that we have made and 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.

Because of the current inflation affecting the economy and the Federal Reserve's interest rate increases in response, we may be harmed in the future.

We believe inflation, and actions taken by the Federal Reserve in response, currently pose a risk to us in a number of ways. General inflation in the United States has risen to levels not experienced in recent decades, including rising energy prices, prices for consumer goods, interest rates, wages, and currency volatility and downgrades by rating agencies to the U.S. government's credit rating or concerns about its credit and deficit levels in general, could cause interest rates and borrowing costs to rise. These increases and any fiscal or other policy interventions by the U.S. government in reaction to such events could negatively impact our business by increasing our operating costs and our borrowing costs as well as decreasing capital. Specifically, the Federal Reserve increased benchmark interest rates multiple times in 2022 and has increased benchmark interest rates multiple times in 2023. While the Federal Reserve did not increase benchmark interest rates at the June 2023 or September 2023 meeting, it has indicated it may continue to raise benchmark interest rates in 2023 in an effort to curb the upward inflationary pressure on the cost of goods and services across the U.S. The raw materials and other supplies we use to produce our products have experienced increasing prices during recent periods as a result of inflation. In response, we have increased the prices we charge customers for our products. While these price adjustments have not caused a reduction in sales thus far, continued increases in inflation rates may result in a reduction of customers or sales volumes. Additionally, as the Federal Reserve begins to increase interest rates, the result could be a recession which would slow demand for our products and hinder our sales growth, or cause sales to decline in future periods. As of the date of this Quarterly Report, we cannot predict how extensive the inflation or the effects of the Federal Reserve's responses thereto will be, its duration or the ultimate impact on us. Additionally, the U.S. government's credit and deficit concerns, the European sovereign debt crisis, and the potential trade war with China, could further cause interest rates to be volatile, which may negatively impact our ability to access the debt markets on favorable terms.

RISKS RELATED TO OUR INDEBTEDNESS AND LIQUIDITY

The 2022 Credit Facility places operating restrictions on us and creates default risks.

The 2022 Credit Facility with Wells Fargo Bank, National Association and other named lenders 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 the 2022 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 the 2022 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 amendments to the 2022 Credit Facility, additional lending sources subject to the restrictions contained in the 2022 Credit Facility, or because of certain debt instruments we may issue.

As of September 29, 2023, we had \$190.0 million of indebtedness, and \$460.0 million in revolving credit available to borrow under the 2022 Credit Facility. Our ability to borrow under the 2022 Credit Facility fluctuates from time to time due to, among other factors, our borrowings under the 2022 Credit 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 2022 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 the 2022 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 2022 Credit Facility will increase our interest expense.

The Federal Reserve increased benchmark interest rates multiple times in 2022 and has increased benchmark interest rates multiple times in 2023. While the Federal Reserve did not increase benchmark interest rates at the June 2023 or September 2023 meeting, it has indicated it may continue to raise benchmark interest rates in 2023 in an effort to curb the upward inflationary pressure on the cost of goods and services across the U.S. Increases in these rates 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, such as the 2022 Interest Rate Swap Agreement, 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. Refer to Note 9 - Derivatives and Hedging for additional information regarding the interest rate swap arrangement.

As of September 29, 2023, we had \$190.0 million of indebtedness outstanding under the 2022 Credit Facility. Based on the \$90.0 million of variable interest rate indebtedness that was outstanding under the 2022 Credit Facility as of September 29, 2023, after giving effect to our interest rate swap, a hypothetical 100 basis point increase or decrease in the interest rate would have resulted in an approximately \$0.2 million increase or decrease in interest expense for the three months ended September 29, 2023, respectively.

We may incur losses on interest rate swap and hedging arrangements.

We may periodically enter into agreements to reduce the risks associated with increases in interest rates, such as our 2022 Swap Agreement. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to us if interest rates decline.

RISKS RELATED TO LAWS AND REGULATIONS

Changes in tax laws and regulations or other factors could cause our income tax obligations to increase, potentially reducing our net income and adversely affecting our cash flows.

We are subject to income tax requirements in various jurisdictions in the U.S. and internationally. In preparing our financial statements, we provide for income taxes based on current tax laws and regulations and the estimated taxable income within each of these jurisdictions. Our income tax obligations may be higher due to numerous factors. Changes to tax laws or interpretations proposed by the current administration in the U.S.; modifications to the U.S. tax reform enacted in December 2017; revisions to estimates regarding our ability to utilize foreign tax credits, particularly increases in revenues generated in Taiwan or changes in the export potential from Taiwan; increases in applicable tax rates; and actions by tax authorities in jurisdictions in which we operate could have a material impact on our net income and cash flows.

We are subject to extensive U.S. 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 U.S. 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 product offerings require us to comply with the rules and regulations of various standards of standard-setting organizations, such as the CPSC, the NHTSA, and the European Committee for Standardization. Failure to comply with the requirements of such organizations could result in the loss of certain customer contracts, fines and penalties, or both, 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 Environmental Protection Agency, the European Union, state regulatory agencies (such as the California Air Resources Board) and other regulatory agencies around the world. We have made, and continue to make, capital and research expenditures to ensure 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. For example, in March 2022, the SEC proposed new rules for extensive and prescriptive climate-related disclosure in annual reports and registration statements, which would also require inclusion of certain climate-related financial metrics in a note to companies' audited financial statements. Further, 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. In addition, a number of our facilities are located in California, a state that frequently experiences earthquakes and wildfires. 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. For example, many nations have agreed to limit emissions of greenhouse gas pursuant to the United Nations Framework Convention on Climate Change, also known as the "Kyoto Protocol" and other initiatives. In December 2015, the U.S. and 194 other countries adopted the Paris Agreement, committing to work towards addressing climate change and agreeing to a monitoring and review process for greenhouse gas emissions. Although the U.S. withdrew from the Paris Agreement in November 2020, the U.S. officially rejoined the Paris Agreement in February 2021 following the change in Presidential administrations, and may in the future choose to join other international agreements targeting greenhouse gas emissions. In addition, in January 2021, President Biden issued an executive order directing all federal agencies to review and take action to address any federal regulations, orders, guidance documents, policies, and any similar agency actions promulgated during the prior administration that may be inconsistent with the current administration's policies and to confront the climate crisis. President Biden also issued an executive order solely targeting climate change. The adoption of legislation or regulatory programs at the federal level or other government action to reduce emissions of greenhouse gases, could have the potential to impact our operations directly or indirectly as a result of required compliance by our suppliers and us. 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, and we may incur higher employee costs in the future.

We are subject to extensive laws and regulations relating to 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 that 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 laws or regulations that are more stringent, 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 environmental matters, 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 category are used in vehicles that 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-sides 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 U.S. 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.

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.

We retain certain personal information about individuals and are subject to various privacy and consumer protection laws.

We collect personal information for various purposes and through various methods, including from third parties and directly from consumers through our website, at events and sales, and via telephone and email. Certain individuals may object to the processing of this data, request the deletion of this data, or opt out of the sharing of this data, any of which may negatively impact our ability to provide effective customer service or otherwise impact our operations. Collection and use of personal information in conducting our business may be subject to federal and/or state laws and regulations in the U.S. and foreign jurisdictions including, in particular, various jurisdictions in Europe, and such laws and regulations may restrict our processing of such personal information and may hinder our ability to attract new customers or market to existing customers. We may incur significant expenses to comply with privacy, consumer protection, and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

Our vendors and any potential commercial partners may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements.

Our vendors and any potential commercial partners expose us to the risk of fraud or other misconduct. Misconduct by these parties could include intentional, reckless, and/or negligent conduct or disclosure of unauthorized activities to us that violate federal and/or state data privacy, security, and consumer protection laws and regulations in the U.S. and abroad. Such misconduct could result in regulatory sanctions and cause serious harm to our reputation.

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, with only a handful of countries exempt from the increase. Throughout the Trump Administration, the U.S. and China imposed a variety of tariffs on most goods traded between the two countries. The U.S. and the European Union also imposed tariffs on each other's products stemming from a dispute at the World Trade Organization related to aircraft. The Biden Administration and U.S. Congress have created significant uncertainty about their review of tariffs and future relationships between the U.S. and other countries with respect to regulations.

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 continued U.S. tariffs on imports could be met with additional retaliatory tariffs on U.S. produced exports and that the broader trade uncertainty could intensify. 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.

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. For example, from October 2, 2020 through September 29, 2023, our stock price has fluctuated between \$190.29 and \$69.28 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.

[Table of Contents](#)

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, such as the follow-on offering of approximately 2.8 million shares of common stock that we completed in June 2020, 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, 42,380,363 of which shares were outstanding as of September 29, 2023. 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 and, more recently, in May 2022, we filed registration statements 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 our business or us. 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 a 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.

We cannot guarantee that our share repurchase program will be fully consummated or that it will enhance long-term stockholder value, and share repurchases could increase the volatility of the price of our common stock.

Pursuant to the new share repurchase program authorized by our Board of Directors on November 1, 2023, we are authorized to repurchase up to \$300.0 million of outstanding shares of our common stock through various methods, including, but not limited to, open market, privately negotiated, or accelerated share repurchase transactions. Such program will expire on November 1, 2028, and may be suspended or discontinued at any time. We are not obligated to repurchase a specified number or dollar of shares, and the timing, manner, price, and actual amount of share repurchases will be made at management’s discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company’s financial performance. The program does not obligate the Company to acquire a minimum amount of shares. The timing of repurchases pursuant to our share repurchase program could affect our stock price and increase its volatility. We cannot guarantee that we will repurchase shares, and there can be no assurance that any repurchases pursuant to our stock repurchase program will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchase such shares. In addition, there is no guarantee that our stock repurchases in the past or in the future will be able to successfully mitigate the dilutive effect of recent and future employee stock option exercises and restricted stock unit vesting. The amounts and timing of the repurchases may also be influenced by general market conditions, regulatory developments (including recent legislative actions which, subject to certain conditions, may impose an excise tax of 1% on our stock repurchases) and the prevailing price and trading volumes of our common stock. If our financial condition deteriorates or we decide to use our cash for other purposes, we may suspend repurchase activity at any time.

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.

GENERAL RISK FACTORS

Failure of our internal controls 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. 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.

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

Issuer Purchases of Equity Securities

The following table contains the details related to the repurchase of common stock based on the date of trade during the quarter ended September 29, 2023:

Period	Total Number of Shares Purchased ⁽¹⁾	Weighted-average Price Paid per Share
7/1-8/4	8,046	\$ 108.99
8/5-9/1	331	\$ 110.20
9/2-9/29	—	\$ —
Total	8,377	\$ 109.03

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 and Non-Rule 10b5-1 Trading Arrangements

During the three months ended September 29, 2023, none of our officers or directors (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

[Table of Contents](#)

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	File No.	Filing Date	
3.1	Second Amended and Restated Certificate of Incorporation	10-Q	001-36040	August 3, 2023	
3.2	Amended and Restated Bylaws	10-Q	001-36040	September 19, 2013	
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, 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 amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.				X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended.				X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover page formatted as Inline XBRL and contained in Exhibit 101				

X Filed herewith

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

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.

November 2, 2023

FOX FACTORY HOLDING CORP.
By: /s/ Dennis C. Schemm
Dennis C. Schemm, Chief Financial Officer and Treasurer
(Principal Financial Officer)

November 2, 2023

FOX FACTORY HOLDING CORP.
By: /s/ Brendan R. Enick
Brendan R. Enick, Chief Accounting Officer
(Principal Accounting Officer)

**CERTIFICATION OF DISCLOSURE IN FOX FACTORY HOLDING CORP'S
QUARTERLY REPORT FILED ON FORM 10-Q**

I, Michael C. Dennison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Fox Factory Holding Corp.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2023

/s/ Michael C. Dennison

Michael C. Dennison
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF DISCLOSURE IN FOX FACTORY HOLDING CORP'S
QUARTERLY REPORT FILED ON FORM 10-Q**

I, Dennis C. Schemm, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Fox Factory Holding Corp.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2023

/s/ Dennis C. Schemm

Dennis C. Schemm
Chief Financial Officer and Treasurer
(Principal Financial Officer and Treasurer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certify, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in their capacities as officers of Fox Factory Holding Corp. (the “Company”), that, to their knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended September 29, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

November 2, 2023

/s/ Michael C. Dennison

Michael C. Dennison
Chief Executive Officer
(Principal Executive Officer)

/s/ Dennis C. Schemm

Dennis C. Schemm
Chief Financial Officer and Treasurer
(Principal Financial Officer and Treasurer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.