FOX FACTORY HOLDING CORP
Form 10-Q
October 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 28, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-36040

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	26-1647258 (I.R.S. Employer Identification No.)
915 Disc Drive Scotts Valley, CA (Address of Principal Executive Offices)	95066 (Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý 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	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of October 28, 2018, there were 37,988,059 shares of the registrant’s common stock outstanding.

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

	As of September 28, 2018	As of December 29, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 32,832	$ 35,947
Accounts receivable (net of allowances of $848 and $676 at September 28, 2018 and December 29, 2017, respectively)	84,867	61,060
Inventory	104,831	84,841
Prepaids and other current assets	20,661	21,100
Total current assets	243,191	202,948
Property, plant and equipment, net	57,471	43,636
Deferred tax assets	8,674	2,669
Goodwill	88,659	88,438
Intangibles, net	85,474	90,044
Other assets	405	551
Total assets	$ 483,874	$ 428,286
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 75,802	$ 40,813
Accrued expenses	32,955	32,608
Reserve for uncertain tax positions	1,540	7,787
Current portion of long-term debt	5,514	5,038
Total current liabilities	115,811	86,246
Line of credit	—	35,585
Long-term debt, less current portion	53,883	58,020
Deferred rent	514	645
Total liabilities	170,208	180,496
Commitments and contingencies (Refer to Note 7 - Commitments and Contingencies)		
Redeemable non-controlling interest	14,852	12,955
Stockholders' equity		
Preferred stock, $0.001 par value — 10,000 authorized and no shares issued or outstanding as of September 28, 2018 and December 29, 2017	—	—
Common stock, $0.001 par value — 90,000 authorized; 38,878 shares issued and 37,988 outstanding as of September 28, 2018; 38,497 shares issued and 37,607 outstanding as of December 29, 2017	38	38
Additional paid-in capital	113,599	112,793
Treasury stock, at cost; 890 common shares as of September 28, 2018 and December 29, 2017	(13,754)	(13,754)
Accumulated other comprehensive loss	(620)	(168)
Retained earnings	199,551	135,926
Total stockholders' equity	298,814	234,835

Total liabilities, redeemable non-controlling interest and stockholders’ equity	$483,874	$428,286

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

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

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Sales	$175,798	$127,399	$462,415	$354,540
Cost of sales	115,312	84,802	307,872	239,172
Gross profit	60,486	42,597	154,543	115,368
Operating expenses:				
Sales and marketing	9,606	6,914	28,142	20,574
Research and development	6,765	5,547	19,019	15,011
General and administrative	11,164	9,061	31,137	25,263
Amortization of purchased intangibles	1,499	697	4,567	2,089
Fair value adjustment of contingent consideration and acquisition-related compensation	—	—	—	1,447
Total operating expenses	29,034	22,219	82,865	64,384
Income from operations	31,452	20,378	71,678	50,984
Other expense, net:				
Interest expense	748	602	2,379	1,696
Other expense (income)	180	(181)	380	285
Other expense, net	928	421	2,759	1,981
Income before income taxes	30,524	19,957	68,919	49,003
Provision for income taxes	5,788	3,885	3,919	8,677
Net income	24,736	16,072	65,000	40,326
Less: net income attributable to non-controlling interest	424	—	1,094	—
Net income attributable to FOX stockholders	$24,312	$16,072	$63,906	$40,326
Earnings per share:				
Basic	$0.64	$0.43	$1.69	$1.08
Diluted	$0.62	$0.41	$1.64	$1.04
Weighted average shares used to compute earnings per share:				
Basic	37,886	37,474	37,743	37,312
Diluted	39,052	38,817	38,913	38,700

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

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

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Net income	$24,736	$ 16,072	$65,000	$ 40,326
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of tax effects	401	345	(452)	1,561
Other comprehensive income (loss)	401	345	(452)	1,561
Comprehensive income	25,137	16,417	64,548	41,887
Less: comprehensive income attributable to non-controlling interest	424	—	1,094	—
Comprehensive income attributable to FOX stockholders	$24,713	$ 16,417	$63,454	$ 41,887

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 28, 2018	September 29, 2017
OPERATING ACTIVITIES:		
Net income	$65,000	$40,326
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,911	7,325
Stock-based compensation	5,649	6,600
Deferred taxes and uncertain tax positions	(12,258)	(7,135)
Change in fair value of contingent consideration	—	(150)
Changes in operating assets and liabilities:		
Accounts receivable	(24,760)	(6,531)
Inventory	(20,403)	(19,844)
Income taxes payable	(1,328)	3,791
Prepaids and other assets	80	(2,981)
Accounts payable	35,717	10,128
Accrued expenses	2,144	(9,498)
Net cash provided by operating activities	60,752	22,031
INVESTING ACTIVITIES:		
Purchases of property and equipment	(20,412)	(10,141)
Purchase of intangible assets	—	(84)
Net cash used in investing activities	(20,412)	(10,225)
FINANCING ACTIVITIES:		
Payments on line of credit	(35,585)	—
Payment of contingent consideration liability	—	(5,382)
Repayment of debt	(3,750)	(2,812)
Repurchases from stock compensation program, net	(4,041)	(2,854)
Net cash used in financing activities	(43,376)	(11,048)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(79)	725
CHANGE IN CASH AND CASH EQUIVALENTS	(3,115)	1,483
CASH AND CASH EQUIVALENTS—Beginning of period	35,947	35,280
CASH AND CASH EQUIVALENTS—End of period	$32,832	$36,763
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$17,664	$11,946
Interest	$2,223	$1,485

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 amounts)
(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 ride dynamics products for customers worldwide. In the powered vehicle category, the Company offers premium products for Side-by-Sides, on-road vehicles with off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, and motorcycles. The Company is a direct supplier to action sports and automotive original equipment manufacturers ("OEMs") and provides aftermarket products to retailers, dealerships, and distributors. The specialty sports category (formerly referred to as “bike”), includes a wide range of suspension products designed for cross-country, trail, all-mountain, free-ride and downhill riding, as well as wheels and other performance cycling components utilizing the Company's carbon technology. The Company supplies top bicycle OEMs and their contract manufacturers, and provides aftermarket products to retailers and distributors.
Throughout this Form 10-Q, unless stated otherwise or as the context otherwise requires, the "Company," "FOX," "Fox Factory," "we," "us," "our," and "ours" refer to Fox Factory Holding Corp. and its operating subsidiaries on a consolidated basis.
Basis of Presentation - The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted (“GAAP”) in the United States of America ("U.S.") and applicable rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 29, 2017 included in the Company’s Annual Report on Form 10-K, as filed with the SEC on February 27, 2018. In management’s opinion, the unaudited interim condensed consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, that are necessary for a fair presentation of financial results for the interim periods presented. Operating results for any quarter are not necessarily indicative of the results for the full fiscal year.
The Company operates on a 52-53 week fiscal calendar. For 2018 and 2017, the Company's fiscal year will end or has ended on December 28, 2018 and December 29, 2017, respectively. The three and nine month periods ended September 28, 2018 and September 29, 2017 each included 13 weeks and 39 weeks.
Principles of Consolidation - These condensed consolidated financial statements include the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.
Summary of Significant Accounting Policies - Beginning the first quarter of fiscal year 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), as updated by ASU 2016-20. There have been no other changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 29, 2017, as filed with the SEC on February 27, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.
Revenue Recognition - Revenues are generated from the sale of ride dynamics products to customers worldwide. The Company’s ride dynamics products are solutions that improve performance of 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 over a product to a customer, generally at the time of shipment. Contracts are generally in the form of purchase orders and are governed by standard terms and

conditions. For larger OEMs, the Company may also enter into master agreements.

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Notes to Condensed Consolidated Financial Statements - continued
(in thousands, except per share amounts)
(unaudited)

Provisions for discounts, rebates, sales incentives, returns, and other adjustments are generally provided for in the period the related sales are recorded, based on management's assessment of historical trends and projection of future results. Certain pricing provisions that provide the customer with future discounts are considered a material right. Such material rights result in the deferral of revenue that are recognized when the rights are exercised by the customer. Measuring the material rights requires judgments including forecasts of future sales and product mix. At September 28, 2018, the balance of deferred revenue related to pricing provisions was $215. These amounts are expected to be recognized over the next 12 months.

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

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

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

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

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

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

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

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

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

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

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the existing guidance for lease accounting. This ASU will require lessees to recognize leases with durations greater than 12 months on the balance sheet. This guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2018 and early adoption is permitted. The Company plans to adopt the new standard on December 29, 2018 with a cumulative-effect adjustment to the opening balance of retained earnings at that date with no restatement of comparative periods’ financial information ("current-period adjustment method"), as recently allowed by the FASB. Additionally, the Company expects to adopt practical expedients with respect to the assessment of embedded leases, lease classification, and initial indirect costs for expired and existing leases, and does not plan to adopt the hindsight practical expedient. The Company is in the process of identifying the appropriate changes to our accounting policies, business processes, and related internal controls to support the recognition and disclosure of this requirement. The Company expects that it will record right-of-use operating lease assets and operating lease liabilities on the consolidated balance sheet which approximate the present value of operating lease commitments disclosed in Note 8 of the Company’s Annual Report on Form 10-K for the year ended December 29, 2017. The Company does not expect that the adoption of ASU 2016-02 will have a material impact on its results of operations or cash flows.

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements - continued
(in thousands, except per share amounts)
(unaudited)

2. Revenues
The following table summarizes total sales by product category:

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Powered Vehicles	$94,891	$60,568	$249,272	$170,662
Specialty Sports	80,907	66,831	213,143	183,878
Total sales	$175,798	$127,399	$462,415	$354,540

The following table summarizes total sales by sales channel:

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
OEM	$106,834	$80,217	$266,886	$213,954
Aftermarket	68,964	47,182	195,529	140,586
Total sales	$175,798	$127,399	$462,415	$354,540

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

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
North America	$108,140	$75,170	$289,875	$212,157
Asia	34,058	27,081	86,228	77,177
Europe	28,351	22,812	77,759	59,554
Rest of the world	5,249	2,336	8,553	5,652
Total sales	$175,798	$127,399	$462,415	$354,540

3. Inventory
Inventory consisted of the following:

	September 28, 2018	December 29, 2017
Raw materials	$70,369	$51,371
Work-in-process	9,225	1,233
Finished goods	25,237	32,237
Total inventory	$104,831	$84,841

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Notes to Condensed Consolidated Financial Statements - continued
(in thousands, except per share amounts)
(unaudited)

4. Property, Plant and Equipment, net
Property, plant and equipment, net consisted of the following:

	September 28, 2018	December 29, 2017
Machinery and manufacturing equipment	$ 35,552	$ 33,664
Leasehold improvements	10,192	9,919
Internal-use computer software	12,770	7,819
Building and land	17,803	8,811
Information systems, office equipment and furniture	7,329	7,715
Transportation equipment	3,892	3,325
Total	87,538	71,253
Less: accumulated depreciation and amortization	(30,067)	(27,617)
Property, plant and equipment, net	$ 57,471	$ 43,636

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

	September 28, 2018	December 29, 2017
United States	$ 52,071	$ 38,450
International	5,400	5,186
Total long-lived assets	$ 57,471	$ 43,636

5. Accrued Expenses
Accrued expenses consisted of the following:

	September 28, 2018	December 29, 2017
Payroll and related expenses	$ 13,423	$ 13,211
Warranty	6,422	6,481
Income tax payable	4,923	6,562
Other accrued expenses	8,187	6,354
Total	$ 32,955	$ 32,608

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

Activity related to warranties is as follows:

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Beginning warranty liability	$6,142	$ 5,077	$6,481	$ 4,593
Charge to cost of sales	1,587	992	3,418	4,045
Costs incurred	(1,307)	(936)	(3,477)	(3,505)
Ending warranty liability	$6,422	$ 5,133	$6,422	$ 5,133

6. Debt

Second Amended and Restated Credit Facility

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

The Second Amended and Restated Credit Facility provides for interest at either a rate based on the London Interbank Offered Rate, or LIBOR, plus a margin ranging from 1.50% to 2.50%, or based on the prime rate offered by SunTrust Bank plus a margin ranging from 0.50% to 1.50%. At September 28, 2018, the one-month LIBOR and prime rates were 2.26% and 5.25%, respectively. At September 28, 2018, our weighted average interest rate on outstanding borrowing was 3.68%. The Second Amended and Restated Credit Facility is secured by substantially all of the Company’s assets, restricts the Company's ability to make certain payments and engage in certain transactions, and also requires that the Company satisfy customary financial ratios. The Company was in compliance with the covenants as of September 28, 2018.

Additionally, the existing credit facility permits up to $15,000 of the aggregate revolving commitment to be used by the Company for issuance of letters of credit. As of September 28, 2018, the Company utilized $5,000 in the form of a standby letter of credit in support of subsidiary operations. The letter of credit expires in November 2018.

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

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

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(in thousands, except per share amounts)
(unaudited)

As of September 28, 2018, future principal payments for long-term debt, including the current portion, are summarized as follows:

For fiscal year:	
2018 (remaining three months)	$1,406
2019	5,625
2020	7,031
2021	45,625
Total term debt	59,687
Debt issuance cost	(290)
Long-term debt, net of issuance cost	59,397
Less: current portion	(5,514)
Long-term debt less current portion	$53,883

Other Indebtedness
The Company had $585 outstanding under a vendor associated line of credit as of December 29, 2017. As of September 28, 2018, the Company had no outstanding balance under this vendor associated line of credit.

7. Commitments and Contingencies
Operating Leases - The Company has operating lease agreements for administrative, research and development, manufacturing and sales and marketing facilities and equipment that expire at various dates. The Company recognizes rent expense on a straight-line basis over the lease term and records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. See Note 12 - Related Party Agreements for additional information on related party operating leases.
Indemnification Agreements - In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by the Company or intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. While the outcome of these matters cannot be predicted with certainty, the Company does not believe that the outcome of any claims under indemnification arrangements will have a material effect on the Company’s results of operations, financial position or liquidity.
Legal Proceedings - A lawsuit was filed on December 17, 2015 by SRAM Corporation (“SRAM”) in the U.S. District Court, Northern District of Illinois, against the Company’s wholly-owned subsidiary, RFE Canada Holding Corp. (“RFE Canada”). The lawsuit alleges patent infringement of U.S. Patent number 9,182,027 ("'027 Patent") and violation of the Lanham Act. SRAM filed a second lawsuit in the same court against RFE Canada on May 16, 2016, alleging patent infringement of U.S Patent number 9,291,250 ("'250 Patent"). The Company believes the lawsuits are without merit and intends to vigorously defend itself. As such, the Company has filed, before the U. S. Patent and Trademark Appeals Board ("PTAB"), for Interparties Reviews ("IPR") of the '027 Patent and separately the same for the '250 Patent. In April 2018, the PTAB issued opinions in the ‘027 Patent petition cases stating that the Company has not shown the claims of the ‘027 Patent to be obvious. Regarding the PTAB ‘027 opinions, the Company has filed a Notice of Appeal to the Court of Appeals ("CAFC") for the Federal Circuit. Regarding that appeal the Company has further moved the CAFC for remand of the ‘027 IPR to the PTAB. The IPR for the ‘250 patent is pending in the PTAB and the PTAB has stayed the ex-parte re-exam of the ‘250 patent.

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(in thousands, except per share amounts)
(unaudited)

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

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

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

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

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

8. Fair Value Measurements

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

	September 28, 2018				December 29, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities:								
Credit facility	$—	$59,397	$—	$59,397	$—	$63,058	$—	$63,058
Non-controlling interest subject to put provisions	—	—	14,852	14,852	—	—	12,955	12,955

Total liabilities measured at fair value	$—	$59,397	$14,852	$74,249	$—	$63,058	$12,955	$76,013

There were no transfers of assets or liabilities between Level 1, Level 2, and Level 3 categories of the fair value hierarchy during the three and nine month period ended September 28, 2018.

(in thousands, except per share amounts)

The Company used Level 2 inputs to determine the fair value of its Second Amended and Restated Credit Facility. As of September 28, 2018 and December 29, 2017, the carrying amount of the principal under the Company's Second Amended and Restated Credit Facility approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio.

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

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

	Redeemable Non-Controlling Interest (level 3 measurement)
Balance at December 29, 2017	$ 12,955
Net income attributable to non-controlling interest	1,094
Change in fair value	803
Balance at September 28, 2018	$ 14,852

9. Stockholders' Equity

Share Repurchase Program and Secondary Stock Offerings

In February 2016, the Company's Board of Directors authorized the Company's 2016 share repurchase program (the "2016 Repurchase Program"), permitting repurchases of up to an aggregate of $40,000 in shares of common stock. The plan expired on December 31, 2017. The Company repurchased 890 shares for a total of $13,754 under both the 2016 Repurchase Program and the prior repurchase program of the Company, which expired on December 31, 2015. Shares of common stock repurchased under such programs are accounted for as treasury stock under the cost method.

In March 2017, the Company closed a secondary offering, whereby the selling stockholders sold an additional 5,574 shares of the Company's common stock at a price of $26.65 per share, less underwriting discounts and commissions. The total shares sold included 466 shares, which were also sold by certain selling stockholders, in connection with the underwriters' option to purchase additional shares. The Company did not sell shares or receive any proceeds from the sales of shares by the selling stockholders. As a result of the March 2017 secondary offering, Compass Group Diversified Holdings LLC ("Compass") no longer holds any equity interest in the Company.

The Company incurred approximately $113 of expenses in connection with the secondary offering during the nine months ended September 29, 2017.

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Equity Incentive Plans

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

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Cost of sales	$124	$ 99	$356	$ 278
Sales and marketing	128	151	428	420
Research and development	174	127	470	305
General and administrative	1,392	1,934	4,395	5,597
Total	$1,818	$ 2,311	$5,649	$ 6,600

The following table summarizes the activity for the Company's unvested restricted stock units ("RSU") for the nine months ended September 28, 2018.

	Unvested RSUs	
	Number of shares outstanding	Weighted-average grant date fair value
Unvested at December 29, 2017	800	$ 23.91
Granted	210	$ 36.25
Canceled	(9)	$ 19.35
Vested	(334)	$ 21.92
Unvested at September 28, 2018	667	$ 28.87

As of September 28, 2018, the Company had approximately $15,077 of unrecognized stock-based compensation expense related to RSUs, which will be recognized over the remaining weighted-average vesting period of approximately 2.75 years.

During the nine months ended September 28, 2018, 167 shares of common stock were issued due to the exercise of stock options, resulting in proceeds of $875. No options to purchase common stock were expired or forfeited during the nine months ended September 28, 2018. As of September 28, 2018, stock-based compensation expense related to stock options has been fully recognized.

10. Income Taxes

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Provision for income taxes	$5,788	$3,885	$3,919	$8,677
Effective tax rates	19.0 %	19.5 %	5.7 %	17.7 %

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

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

As permitted by the SEC's Staff Accounting Bulletin 118 ("SAB 118"), the Company made reasonable estimates of the effects the TCJA where uncertainty existed, recognizing provisional amounts for all items for which it is able to determine a reasonable estimate. In cases where a reasonable estimate was not possible, the Company continued to apply its existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to the enactment. In all cases, the Company will continue to make and refine its calculations as additional analysis is completed. The impact of the TCJA may differ from estimates during the one-year measurement period permitted by SAB 118 due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take. After the conclusion of the one-year measurement period, the Company's estimates may continue to be affected as interpretations of the law through regulations and common practice emerge.

Provisional amounts

Deferred Tax Assets and Liabilities: In the fourth quarter of fiscal year 2017, the Company remeasured its U.S. deferred tax assets and liabilities that give rise to future tax deductions based on the enacted tax rates in effect for the periods in which the deductions are expected to be taken. However, it was recognized that certain aspects of the TCJA could potentially affect the measurement of these balances or give rise to new deferred tax amounts. The most significant uncertainty surrounds the impact of grandfathering on limitations of deductibility of executive compensation. The provisional amount recorded in the fourth quarter of fiscal year 2017 related to the remeasurement of our deferred tax balance was a net benefit of $2,448.

In August 2018, the U.S. Internal Revenue Service ("IRS") issued a notice (the "IRS Notice") regarding the provisionally accounted for grandfathering provisions on limitations of executive compensation. The IRS Notice is expected to be incorporated into final clarifying regulations that have yet to be proposed. In the three months ended September 28, 2018, the Company reduced its deferred tax asset by $552 for pre-2018 stock-based compensation expense, the deductibility of which is uncertain based on the guidance in the IRS Notice.

One-Time Transition Tax: The one-time transition tax was based on the total post-1986 earnings and profits on which U.S. tax were previously deferred, taxed at rates that differed based on the amount of those earnings held in cash and other specified assets. In the fourth quarter of fiscal year 2017, the Company recorded a provisional amount as an increase in income tax expense related to the one-time transition tax of $3,706. The calculation was finalized in October 2018 and did not differ materially from the estimate.

For the three months ended September 28, 2018, the difference between the Company's effective tax rate of 19.0% and the 21% federal statutory rate resulted primarily from lower foreign tax rates, lower effective federal rates on foreign derived intangible income, research and development credits, and $2,090 from excess benefits related to the vesting of RSUs and exercise of stock options. These benefits were partially offset by $1,374 related to loss of deductibility as a result of the IRS Notice, state taxes, foreign withholding taxes and the impact of non-deductible expenses.

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For the nine months ended September 28, 2018, the difference between the Company's effective tax rate of 5.7% and the 21% federal statutory rate resulted primarily from a $9,838 impact of the favorable conclusion of the 2015 IRS audit and the recognition of related tax positions with respect to the deductibility of amortization and depreciation expense resulting from the acquisition of the Company in 2008. The benefit of the deductions was not recognized in accounting for the acquisition due to uncertainty about whether the tax position would withstand audit. The results of the audit provided basis for the Company to conclude during the first quarter of 2018 that the amortization and depreciation will likely be deductible for all open tax years. In May 2018, the Company and the IRS entered into a closing agreement that definitively resolved the deductibility and confirmed the Company's prior conclusion on the matter. In addition, the effective tax rate benefited from $3,207 of excess benefits related to the vesting of RSUs and exercise of stock options, lower foreign tax rates, lower effective federal rates on foreign derived intangible income, and research and development credits. These benefits were partially offset by $1,374 related to loss of deductibility as a result of the IRS Notice, state taxes, foreign withholding taxes and the impact of non-deductible expenses.

For the three and nine months ended September 29, 2017, the difference between the Company's effective tax rate and the 35% federal statutory rate resulted primarily from lower foreign tax rates on permanently reinvested earnings of the Company's foreign subsidiaries and $1,190 and $5,212, respectively, from excess benefits related to the exercise of stock options and vesting of RSUs. These benefits were partially offset by state taxes and the impact of non-deductible costs.

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

The Company has obtained tax incentives in Switzerland that are effective through March 2019 that result in a rate reduction provided that the Company meets specified criteria. Upon expiration, the Company may renew the arrangement on demand, as long as the applicable law and operating criteria remain in place. The effect of the tax incentives were not material to the Company's income tax provision for the three and nine months ended September 28, 2018 and September 29, 2017.

11. Earnings Per Share

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

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

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Net income attributable to FOX stockholders	$24,312	$ 16,072	$63,906	$ 40,326
Weighted average shares used to compute basic EPS	37,886	37,474	37,743	37,312
Dilutive effect of employee stock plans	1,166	1,343	1,170	1,388
Weighted average shares used to compute diluted EPS	39,052	38,817	38,913	38,700
EPS:				
Basic	$0.64	$ 0.43	$1.69	$ 1.08
Diluted	$0.62	$ 0.41	$1.64	$ 1.04

Anti-dilutive shares excluded from the calculation of diluted EPS for the three and nine months ended September 28, 2018 and September 29, 2017 were not material.

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12. Related Party Agreements
Fox Factory, Inc. has a triple-net building lease for its manufacturing and office facilities in Watsonville, California. The building is owned by a former member of our Board of Directors who retired on August 28, 2018. Rent expense under this lease was $179 and $536 for the three and nine months ended September 28, 2018 and September 29, 2017, respectively. The lease was amended effective April 2016 to extend the term through June 30, 2020, with monthly rental payments of $60, which are adjusted annually for a cost-of-living increase based upon the consumer price index.
On September 28, 2018, the Company purchased Tuscany's facilities from certain non-controlling interest stockholders who are also employees of the Company. The total purchase price was $3,750. These properties were leased by the Company prior to being purchased. Rent expense under these leases was $86 and $257 for the three and nine months ended September 28, 2018, respectively.

13. Business Combinations

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

The Company incurred $463 in transaction costs in conjunction with this acquisition during the nine months ended September 28, 2018, which is included in general and administrative expense in the accompanying consolidated statement of income. The Company incurred no transactions costs in conjunction with this acquisition during the three months ended September 28, 2018.

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ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2017, as filed with the U.S. Securities and Exchange Commission ("SEC") on February 27, 2018, and our other reports and registration statements that we file with the SEC from time to time. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in the “Risk Factors” section included in Part II, Item 1A.

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

Cautionary Note Regarding Forward-Looking Statements

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

- our ability to develop new and innovative products in our current end-markets;
- our ability to leverage our technologies and brand to expand into new categories and end-markets;
- our ability to increase our aftermarket penetration;
- our ability to accelerate international growth;
- our exposure to exchange rate fluctuations;
- the loss of key customers;
- our ability to improve operating and supply chain efficiencies;
- our ability to enforce our intellectual property rights;
- our future financial performance, including our sales, cost of sales, gross profit or gross margins, operating expenses, ability to generate positive cash flow and ability to maintain our profitability;
- our ability to maintain our premium brand image and high-performance products;
- our ability to maintain relationships with the professional athletes and race teams we sponsor;
- our ability to selectively add additional dealers and distributors in certain geographic markets;
- the growth of the markets in which we compete, our expectations regarding consumer preferences and our ability to respond to changes in consumer preferences;
- changes in demand for high-end suspension and ride dynamics products;
- the loss of key personnel, management and skilled engineers;
- our ability to successfully identify, evaluate and manage potential acquisitions and to benefit from such acquisitions;
- the outcome of pending litigation;
- future disruptions in the operations of our manufacturing facilities;

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- our ability to adapt our business model to mitigate the impact of certain changes in tax laws including those enacted in the U.S. in December 2017;
- changes in tariffs, quotas, trade barriers and other similar restrictions on sales;
- changes in the relative proportion of profit earned in the numerous jurisdictions in which we do business and in tax legislation, case law and other authoritative guidance in those jurisdictions;
- product recalls and product liability claims; and
- future economic or market conditions.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects and the outcomes of any of the events described in any forward-looking statements are subject to risks, uncertainties, and other factors. In addition to the risks, uncertainties and other factors discussed above and elsewhere in this Quarterly Report on Form 10-Q, the risks, uncertainties and other factors expressed or implied in Part I, Item 1A, "Risk Factors" of our 2017 Annual Report on Form 10-K as filed with the SEC on February 27, 2018, could cause or contribute to actual results differing materially from those set forth in any forward-looking statement. Moreover, we operate in a very competitive and challenging environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur. Actual results, events, or circumstances could differ materially from those contemplated by, set forth in, or underlying any forward-looking statements. For all of these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements in Section 27A of the Securities Act and Section 21E of the Exchange Act. The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

Critical Accounting Policies and Estimates

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

Recent Accounting Pronouncements

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

Seasonality

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

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Results of Operations

The table below summarizes our results of operations:

(in thousands)	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Sales	$175,798	$127,399	$462,415	$354,540
Cost of sales	115,312	84,802	307,872	239,172
Gross profit	60,486	42,597	154,543	115,368
Operating expenses:				
Sales and marketing	9,606	6,914	28,142	20,574
Research and development	6,765	5,547	19,019	15,011
General and administrative	11,164	9,061	31,137	25,263
Amortization of purchased intangibles	1,499	697	4,567	2,089
Fair value adjustment of contingent consideration and acquisition-related compensation	—	—	—	1,447
Total operating expenses	29,034	22,219	82,865	64,384
Income from operations	31,452	20,378	71,678	50,984
Other expense, net:				
Interest expense	748	602	2,379	1,696
Other expense (income)	180	(181)	380	285
Other expense, net	928	421	2,759	1,981
Income before income taxes	30,524	19,957	68,919	49,003
Provision for income taxes	5,788	3,885	3,919	8,677
Net income	24,736	16,072	65,000	40,326
Less: net income attributable to non-controlling interest	424	—	1,094	—
Net income attributable to FOX stockholders	$24,312	$16,072	$63,906	$40,326

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

	For the three months ended		For the nine months ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Sales	100.0 %	100.0		