

FOX FACTORY HOLDING CORP
Form 10-Q
August 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

Commission File Number: 001-36040

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

26-1647258
(I.R.S. Employer
Identification No.)

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

95066
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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 July 31, 2014, there were 36,877,254 shares of the Registrant's common stock outstanding.

Fox Factory Holding Corp.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FOX FACTORY HOLDING CORP.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	As of June 30, 2014 (unaudited)	As of December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$1,856	\$1,683
Accounts receivable (net of allowance for doubtful accounts of \$388 and \$366 at June 30, 2014 and December 31, 2013 respectively)	39,344	33,781
Inventory	63,100	42,783
Prepays and other current assets	4,538	2,648
Deferred tax assets	3,676	3,490
Total current assets	112,514	84,385
Property, plant and equipment, net	18,646	13,418
Loan fees, net	906	717
Goodwill	43,887	31,925
Intangibles, net	59,509	27,284
Other assets	824	—
Total assets	\$236,286	\$157,729
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$30,484	\$24,254
Accrued expenses	10,423	12,451
Liability reserve for uncertain tax positions	7,684	7,796
Current portion of long-term debt	2,500	—
Total current liabilities	51,091	44,501
Line of credit	—	8,000
Long-term debt, less current portion	42,875	—
Deferred rent	801	931
Deferred tax liabilities	10,327	12,005
Contingent consideration	19,035	—
Total liabilities	124,129	65,437
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, \$0.001 par value—10,000,000 authorized and no shares issued or outstanding as of June 30, 2014 and December 31, 2013	—	—
Common stock, \$0.001 par value—90,000,000 authorized and 36,743,734 and 36,317,087 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively;	36	36
Additional paid-in capital	93,122	87,788
Accumulated other comprehensive loss	(6	) (15
Retained earnings	19,005	4,483
Total stockholders' equity	112,157	92,292
Total liabilities and stockholders' equity	\$236,286	\$157,729

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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Sales	\$86,374	\$70,316	\$142,482	\$125,194
Cost of sales	59,421	49,951	98,512	89,114
Gross profit	26,953	20,365	43,970	36,080
Operating expenses:				
Sales and marketing	5,118	3,478	8,962	6,762
Research and development	3,625	2,588	6,760	4,942
General and administrative	4,800	2,815	8,730	5,489
Amortization of purchased intangibles	1,674	1,341	3,035	2,682
Total operating expenses	15,217	10,222	27,487	19,875
Income from operations	11,736	10,143	16,483	16,205
Other expense, net:				
Interest expense	321	997	431	1,953
Other (income) expense, net	(125)	) 52	(157)	) 19
Other expense, net	196	1,049	274	1,972
Income before income taxes	11,540	9,094	16,209	14,233
(Benefit) provision for income taxes	(41)	) 3,373	1,687	4,962
Net income	\$11,581	\$5,721	\$14,522	\$9,271
Earnings per share:				
Basic	\$0.32	\$0.17	\$0.40	\$0.28
Diluted	\$0.31	\$0.17	\$0.38	\$0.27
Weighted average shares used to compute earnings per share:				
Basic	36,648	33,460	36,534	33,460
Diluted	37,812	34,667	37,734	34,670

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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Net income	\$11,581	\$5,721	\$14,522	\$9,271
Other comprehensive income:				
Foreign currency translation adjustments	3	28	9	21
Other comprehensive income	3	28	9	21
Comprehensive income	\$11,584	\$5,749	\$14,531	\$9,292

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

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FOX FACTORY HOLDING CORP.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the six months ended June 30,	
	2014	2013
OPERATING ACTIVITIES:		
Net income	\$14,522	\$9,271
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,535	3,813
Provision for doubtful accounts	22	12
Stock-based compensation	1,922	1,128
Excess tax benefit from exercise of stock options	(1,662)) —
Loss (gain) on disposal of property and equipment	3	(7)
Deferred taxes	(1,865)	) (70)
Amortization of loan fees	87	—
Changes in operating assets and liabilities:		
Accounts receivable	(4,044)	) (15,167)
Inventory	(11,837)	) (16,760)
Income taxes payable	1,550	—
Prepays and other current assets	(1,768)	) 168
Other assets	(824)	) 225
Accounts payable	5,987	14,243
Accrued expenses	(2,445)	) (790)
Deferred rent	(130)	) (87)
Net cash provided by (used in) operating activities	4,053	(4,021)
INVESTING ACTIVITIES:		
Acquisition - Sport Truck USA, Inc.	(40,770)) —
Purchases of property and equipment	(2,244)	) (1,817)
Acquisition of other assets	(1,401)) —
Proceeds from sale of property and equipment	—	7
Net cash used in investing activities	(44,415)	) (1,810)
FINANCING ACTIVITIES:		
Proceeds from line of credit	13,000	—
Payments on line of credit	(21,000)) —
Proceeds from related party line of credit	—	31,858
Payments on related party line of credit	—	(8,850)
Repayment of related party debt	—	(16,758)
Proceeds from issuance of debt, net of origination fees of \$278	49,723	—
Repayment of debt	(4,625)) —
Proceeds from the exercise of stock options	1,750	—
Excess tax benefit from exercise of stock options	1,662	—
Payments for deferred offering costs of initial public offering	—	(271)
Net cash provided by financing activities	40,510	5,979

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CHANGE IN CASH AND CASH EQUIVALENTS	173	169
CASH AND CASH EQUIVALENTS—Beginning of period	1,683	15
CASH AND CASH EQUIVALENTS—End of period	\$1,856	\$184
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$2,506	\$2,937
Interest	\$342	\$1,655
Non-cash investing and financing activities:		
Contingent consideration - acquisition of Sport Truck USA, Inc.	\$19,035	\$—
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements

(in thousands, except per share amounts)

(Unaudited)

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

Fox Factory Holding Corp. (the "Company") designs and manufactures high-performance suspension products primarily for mountain bikes, side-by-side vehicles, on-road and off-road vehicles and trucks, all-terrain vehicles, snowmobiles, specialty vehicles and applications, and motorcycles. The Company acts both as a tier one supplier to leading action sports original equipment manufacturers ("OEM") and provides aftermarket products to retailers and distributors ("AM").

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 wholly owned 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 in the United States of America ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. 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 year ended December 31, 2013 included in the Company's Annual Report on Form 10-K as filed with the SEC. In management's opinion, the unaudited interim 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 the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Initial Public Offering- On August 13, 2013, the Company completed the initial public offering ("IPO") of its common stock pursuant to a registration statement on Form S-1. In the IPO, the Company sold 2,857 shares of common stock and the selling stockholders sold a total of 7,000 shares of common stock (including the shares sold pursuant to the exercise of the option granted to the underwriters) at an initial public offering price to the public of \$15.00 per share. The Company received net proceeds from the IPO of approximately \$36,122 from its sale of 2,857 shares of common stock after deducting underwriting discounts, commissions and offering expenses. The Company did not receive any proceeds from the sale of shares by the selling stockholders. The Company used the net proceeds it received to pay down related party debt. In July 2014, certain selling stockholders completed a secondary offering of the Company's common stock, which is described more fully in Note 8 - Stockholders' Equity.

Principles of Consolidation- These condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's subsidiaries include: Fox Factory, Inc, ST USA Holding Corp. and Fox Factory GmbH. All intercompany accounts and transactions 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 31, 2013 that have had a material impact on our condensed consolidated financial statements and related notes.

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.

In the second quarter of 2014, the Company concluded an analysis of legal developments and business practices relative to the apportionment of income for state tax purposes that resulted in a change in estimate regarding income taxes. See Note 10 - Income Taxes.

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FOX FACTORY HOLDING CORP.

Notes to Condensed Consolidated Financial Statements - continued

(in thousands, except per share amounts)

(unaudited)

Certain Significant Risks and Uncertainties- The Company is subject to those risks common