

FOX FACTORY HOLDING CORP
Form 10-Q
November 06, 2013
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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 September 30, 2013

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	26-1647258 (I.R.S. Employer
Incorporation or Organization)	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 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 November 6, 2013, there were 36,317,087 shares of the Registrant's common stock outstanding.

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Table of Contents**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 September 30, 2013 (unaudited)	As of December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,496	\$ 15
Accounts receivable (net of allowance for doubtful accounts of \$352 and \$440 at September 30, 2013 and December 31, 2012, respectively)	39,246	25,224
Inventory	46,393	34,255
Prepays and other current assets	2,506	2,242
Deferred tax assets	3,350	3,405
Total current assets	94,991	65,141
Property and equipment, net	12,540	11,789
Loan fees, net	755	
Loan fees, net related party		1,665
Goodwill	31,372	31,372
Intangibles, net	28,130	32,153
Total assets	\$ 167,788	\$ 142,120
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 22,429	\$ 19,551
Accrued expenses	12,052	10,156
Liability reserve for uncertain tax positions	7,320	7,292
Current portion of long-term debt related party		3,000
Total current liabilities	41,801	39,999
Line of credit	24,500	
Line of credit related party		750
Long-term debt, less current portion related party		55,500
Deferred rent	1,010	1,132
Deferred tax liabilities	13,890	15,155

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Total liabilities	81,201	112,536
Commitments and contingencies (Note 9)		
Stockholders' equity		
Common stock, \$0.001 par value 69,675,000 authorized as of September 30, 2013 and December 31, 2012; 36,317,087 and 33,459,944 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively;	36	33
Additional paid-in capital	86,963	49,169
Accumulated other comprehensive income	12	1
Accumulated deficit	(424)	(19,619)
Total stockholders' equity	86,587	29,584
Total liabilities and stockholders' equity	\$ 167,788	\$ 142,120

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

Table of Contents**Fox Factory Holding Corp.****Condensed Consolidated Statements of Income****(in thousands, except per share data)**

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Sales	\$ 82,293	\$ 72,864	\$ 207,487	\$ 179,256
Cost of sales	56,960	52,745	146,074	129,592
Gross profit	25,333	20,119	61,413	49,664
Operating expenses:				
Sales and marketing	3,621	3,150	10,382	9,288
Research and development	2,500	2,427	7,442	7,196
General and administrative	3,098	2,223	8,588	7,069
Amortization of purchased intangibles	1,341	1,341	4,023	3,974
Total operating expenses	10,560	9,141	30,435	27,527
Income from operations	14,773	10,978	30,978	22,137
Other expense, net:				
Interest expense	(2,015)	(1,424)	(3,968)	(2,294)
Other income (expense), net	38	14	19	(287)
Other expense, net	(1,977)	(1,410)	(3,949)	(2,581)
Income before income taxes	12,796	9,568	27,029	19,556
Provision for income taxes	2,872	4,099	7,834	7,131
Net income	\$ 9,924	\$ 5,469	\$ 19,195	\$ 12,425
Earnings per share:				
Basic	\$ 0.28	\$ 0.16	\$ 0.56	\$ 0.39
Diluted	\$ 0.27	\$ 0.16	\$ 0.55	\$ 0.39
Weighted average shares used to compute earnings per share:				
Basic	35,013	33,465	33,983	31,588
Diluted	36,423	33,718	35,108	31,906

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

Table of Contents**Fox Factory Holding Corp.****Condensed Consolidated Statements of Comprehensive Income****(in thousands)**

(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Net income	\$ 9,924	\$ 5,469	\$ 19,195	\$ 12,425
Other comprehensive income:				
Foreign currency translation adjustments	(10)	5	11	5
Other comprehensive income	(10)	5	11	5
Comprehensive income	\$ 9,914	\$ 5,474	\$ 19,206	\$ 12,430

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

Table of Contents**Fox Factory Holding Corp.****Condensed Consolidated Statements of Cash Flows****(in thousands)**

(unaudited)

	For the nine months ended September 30,	
	2013	2012
OPERATING ACTIVITIES:		
Net income	\$ 19,195	\$ 12,425
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,757	5,320
Provision for doubtful accounts	(88)	85
Stock-based compensation	1,675	1,733
Excess tax benefit from exercise of stock options		(5,755)
(Gain) loss on disposal of property and equipment	(7)	250
Write-off of unamortized loan origination costs from related party debt	1,405	
Deferred taxes	(1,182)	(1,472)
City of Watsonville loan credit		(4)
Changes in operating assets and liabilities:		
Accounts receivable	(13,934)	(15,156)
Inventory	(12,138)	(11,165)
Income taxes receivable		6,458
Prepays and other current assets	(264)	(113)
Other assets	284	(1,332)
Accounts payable	2,605	8,120
Accrued expenses	1,896	755
Deferred rent	(122)	693
Net cash provided by operating activities	5,082	842
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,485)	(3,882)
Proceeds from sale of property and equipment	7	
Purchase of intangible assets		(835)
Net cash used in investing activities	(2,478)	(4,717)
FINANCING ACTIVITIES:		
Payments for deferred offering costs of initial public offering	(3,462)	
Proceeds from initial public offering, net of underwriter fees	39,857	
Proceeds from equity issuance		7,204
Excess tax benefit from exercise of stock options		5,755

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Dividends paid		(67,000)	
Proceeds from line of credit, net of origination fees of \$779	27,721		
Payments on line of credit	(4,000)		
Proceeds from related party line of credit	31,858	29,135	
Payments on related party line of credit	(32,608)	(16,335)	
Proceeds from issuance of related party debt		60,000	
Repayment of related party debt	(58,500)	(14,589)	
Net cash provided by financing activities	866	4,170	
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	11	5	
CHANGE IN CASH AND CASH EQUIVALENTS	3,481	300	
CASH AND CASH EQUIVALENTS Beginning of period	15	114	
CASH AND CASH EQUIVALENTS End of period	\$ 3,496	\$ 414	
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:			
Cash paid for income taxes	\$ 7,027	\$ 2,145	
Cash paid for interest	\$ 2,446	\$ 1,729	
Deferred offering costs recorded in accounts payable	\$ 273	\$	

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

(unaudited)

1. Description of Business and Basis of Presentation

Fox Factory Holding Corp. (the Company) is a designer, manufacturer and marketer of high end suspension products for mountain bikes and powered vehicles, which includes all-terrain vehicles, snowmobiles and other off-road vehicles. 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).

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 2,857,143 shares of common stock and the selling stockholders sold a total of 7,000,000 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 \$36.1 million from its sale of 2,857,143 shares of common stock after deducting underwriting discounts and 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 under its Prior Credit Facility (see Note 8 Debt).

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 consolidated financial statements contained in the Company's Prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the Securities Act) on August 8, 2013 (the Prospectus). The condensed consolidated balance sheet as of December 31, 2012, included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures required by GAAP, including notes to the financial statements.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments (consisting primarily of normal recurring adjustments) necessary for the fair presentation of the interim periods presented.

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

2. Summary of Significant Accounting Policies

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 manufacture-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.

Concentration of Credit Risk Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist primarily of cash and accounts receivable. A significant portion of the Company's cash is held at one large financial institution. The Company has not experienced any losses in such accounts.

