

FOX FACTORY HOLDING CORP

Form 10-K

February 29, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

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)

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

Title of Each Class

Name of each exchange on which registered

Common Stock, par value \$0.001 per share

The NASDAQ Stock Market LLC  
(NASDAQ Global Select Market)

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Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

Based upon the closing price of the registrant's common stock on the NASDAQ Global Select Market on June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) the approximate aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$287,813,000. As of February 19, 2016, there were 37,025,076 shares of the Registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that involve substantial risks and uncertainties. The statements contained in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of 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"), including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "estimate," "expect," "intend," "may," "might," "plan," "project," "will," "would," "should," "could," "can," "predict," "potential," "continue," "objective," or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in this Annual Report on Form 10-K. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. We qualify all of our forward-looking statements by these cautionary statements. In addition, the industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors including those described in the section entitled "Risk Factors." These and other factors could cause our results to differ materially from those expressed in this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

Our company, Fox Factory Holding Corp., designs, engineers, manufactures and markets performance ride dynamics products for customers world-wide. Fox Factory Holding Corp. is the holding company of Fox Factory, Inc. As used herein, "Fox Factory," "FOX," the "Company," "we," "our," and similar terms refer to Fox Factory Holding Corp. and its subsidiaries, unless the context indicates otherwise. Our premium brand ride dynamics products, are used primarily on bicycles ("bikes"), side-by-side vehicles ("Side-by-Sides"), on-road vehicles with off-road capabilities, off-road vehicles and trucks, all-terrain vehicles, or ATVs, snowmobiles, specialty vehicles and applications, and motorcycles. We define ride dynamics as the interplay between the rider, the vehicle and the terrain, and we offer unique solutions to improve performance and control. Some of our products are specifically designed and marketed to some of the leading action sports original equipment manufacturers ("OEMs"), while others are distributed directly to consumers through a global network of dealers and distributors.

Fox Factory, Inc., our operating subsidiary, was incorporated in California in 1978. Fox Factory Holding Corp. was incorporated in Delaware on December 28, 2007. Compass Group Diversified Holdings LLC, ("Compass") purchased a controlling interest in Fox Factory Holding Corp. on January 4, 2008. As of December 31, 2015, Compass beneficially owned approximately 40.8% of our outstanding common stock.

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

Description of our business

We are a designer, manufacturer and marketer of performance ride dynamics products used primarily on bicycles, Side-by-Sides, on-road vehicles with off-road capabilities, off-road vehicles and trucks, all-terrain vehicles, or ATVs, snowmobiles, specialty vehicles and applications, and motorcycles. We believe our products offer innovative design, performance, durability and reliability. Our brand is associated with high-performance and technologically advanced products, by which we generally mean products that provide users with improved control and a smoother ride while riding over rough terrain in varied environments. We believe that the performance of our products has been demonstrated by, and our brand benefits from, the success of professional athletes who use our products in elite competitive events, such as the Union Cycliste Internationale Mountain Bike World Cup and the X Games. We believe the exposure our products receive when used by successful professional athletes positively influences the purchasing habits of enthusiasts and other consumers seeking high-performance products. We believe that our strategic focus on the performance and racing segments in our markets influences many aspiring and enthusiast consumers who we believe seek to emulate the performance of professional and other elite athletes. We believe our products are generally sold at premium prices, which to us means manufacturer suggested retail sale prices that are generally in the upper quartile of their respective product categories.

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

For clarification, we are not affiliated with Fox Head, Inc., an action sports apparel company.

Industry

We participate in large global markets for bikes and powered vehicles used by recreational and professional users. Today, our products for powered vehicles are used primarily on Side-by-Sides, on-road vehicles with off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, and motorcycles. We focus on premium priced products within each of these categories, which we consider to be the high-end segment because of their higher retail sale prices, where we believe consumers have a preference for well-designed, performance-oriented equipment. We believe that ride dynamics products, which include suspension systems, as well as wheels, cranks, and other components, are critical to the performance of the bikes and powered vehicles in the

product categories in which we focus and that technical features, component performance, product design, durability, reliability and brand recognition strongly influence the purchasing decisions of consumers. Over the past decade, there have been significant technological advances in materials and features that have increased product functionality and performance, allowing high-end suspension products to be adapted for use in additional end-markets and bike and powered vehicle categories.

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

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

As vehicles in our end-markets evolve and grow more capable, ride dynamics products and components have become, and we believe will continue to become, increasingly more important for improved performance and control.

Additionally, we believe there are opportunities to continue to leverage our technical know-how in suspension products to provide solutions beyond our current end-markets.

Our competitive strengths

Broad offering of performance products across multiple consumer markets

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

Premium brand with strong consumer loyalty

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

Track record of innovation and new product introductions

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

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

Over the last three years, we have developed multiple new products, such as the:

- 34 Factory Series FLOAT FIT4, which reduces overall fork weight, provides external adjustability with our fourth-generation FOX Isolated Technology, closed-cartridge damper, and includes the self-adjusting negative chamber air spring that we developed and proved out with the 36 Factory FLOAT RC2 for quieter operation and ease of adjustment;
-



X2 technology utilized in our Factory Series FLOAT and DH rear shocks, which allows the rider to tune high and low speed compression and high and low speed rebound independently;  
PODIUM Internal Bypass, introduced into the UTV market, which through its internal bypass technology, allows the vehicle to be plush on small bumps and deliver excellent chassis control while providing progressive bottoming resistance with each increment of travel used; and

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FLOAT iCD, which provides riders the ability to adjust modes for different skills, terrains and activity levels on mountain bikes, resulting in increased utilization of the modes and an overall more efficient ride dynamics experience. Strategic brand for OEMs, dealers and distributors

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

Experienced management team

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

Our strategy

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

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

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

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

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

Opportunistically expand our ride dynamics platform through acquisitions

In the past two years we've completed several acquisitions which we believe enhance our business and strategically expand our product offerings. In the first quarter of 2014, we acquired the business of Sport Truck, a full service distributor of aftermarket suspension solutions. Sport Truck designs, markets, and distributes lift kit solutions primarily through its brands, BDS Suspension and Zone Offroad Products. A lift kit solution is an aftermarket vehicle modification that lifts either the suspension or the body of a vehicle to raise the ride height of the vehicle. Lift kits are commonly installed to allow for the installation of larger tires and new suspension systems. In December of 2014, we acquired the businesses of Race Face/Easton. Race Face/Easton, known for its unique carbon technology, designs, manufactures, and distributes performance mountain and road bike wheels and other performance cycling components including cranks, bars, stems, and seat posts, globally to OEMs and the aftermarket. In November 2015, we continued to expand our opportunities through the acquisition of certain assets of Marzocchi's bike product lines.

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

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### Increase our aftermarket penetration

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

### Accelerate international growth

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

### Improve operating and supply chain efficiencies

We intend to improve operating margins by enhancing our design and production processes to increase efficiencies, reducing new product time to market and lowering production costs. During 2015, we completed the process of moving a majority of the manufacturing of our bike suspension component products to Taiwan. We manufactured approximately 74% and 54% of our complete suspension forks and shocks, respectively, at our Taiwan bike suspension component facility in 2015, as well as a significant amount of our subassemblies and other components. This transition has shortened production lead times to our bike OEM customers, and we believe that over time this transition will continue to improve supply chain efficiencies and reduce manufacturing costs.

### Seasonality

Our business is seasonal. In each of the last three fiscal years, our quarterly sales have been the lowest in the first quarter and the highest during our third quarter of the year. For example, our sales in our first and third quarters of 2015 represented 18% and 29% of our total sales for the year, respectively. We believe this seasonality is due to the delivery of new products.

### Competition

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

#### Bikes

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

#### Powered vehicles

Within the market for powered vehicle suspension components, we compete with several companies in different submarkets. We believe a significant competitor for suspension components in the snowmobile market is KYB

(Kayaba Industry Co., Ltd.). Other suppliers of suspension components for snowmobiles include Öhlins Racing AB, Walker Evans Racing, Works Performance Products, Inc. and Penske Racing Shocks / Custom Axis, Inc. In the ATV and Side-by-Side markets, outside of captive OEM suppliers, we compete with ZF Sachs (ZF Friedrichshafen AG) and Walker Evans Racing for OEM business and Elka Suspension Inc., Öhlins Racing AB, Works Performance Products and Penske Racing Shocks / Custom Axis, Inc. for aftermarket business.

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In the market for off-road and specialty vehicle suspension components, we believe our two biggest competitors are ThyssenKrupp Bilstein Suspension GmbH (commonly known as Bilstein) and King Shock Technology, Inc. (commonly known as King Shock). Other competitors include Icon Vehicle Dynamics, Sway-A-Way, Pro Comp USA Suspension and Rancho (Tenneco). In the market for suspension systems, or lift kits, we compete with TransAmerican Wholesale /Pro Comp USA, Rough Country Suspension Systems, TeraFlex, ReadyLIFT Suspension, Tuff Country EZ-Ride Suspension, and Rusty's Off-Road.

### Our products

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

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

### Bikes

As a result of our acquisitions in recent years, our bike product offerings have expanded and are used on a wide range of performance mountain bikes and road bikes. In each of the years ended December 31, 2015, 2014 and 2013, approximately 58%, 58% and 66%, respectively, of our sales were attributable to sales of bike-related products. Primarily for the mountain bike market, we offer mid-end and high-end front fork and rear suspension products designed for cross-country, trail, all-mountain, free-ride and downhill riding. Our mountain bike products are sold in three series: (i) our Performance series, designed for demanding, yet value-minded, enthusiasts; (ii) our Performance Elite series, designed for experienced enthusiasts and expert riders; and (iii) our Factory series, designed for maximum performance at a professional level.

We also offer mountain and road bike wheels and other performance cycling components including cranks, bars, stems, and seat posts, utilizing our carbon technology.

### Powered vehicles

In our powered vehicle product category, we offer 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. In each of the years ended December 31, 2015, 2014 and 2013, approximately 42%, 42% and 34%, respectively, of our sales were attributable to sales of products for powered vehicles.

Products for these vehicles are designed for trail riding, racing and performance. Our products have also been used on limited quantities of off-road military vehicles and other small-scale select military applications. Our suspension component products in the powered vehicle category range from two inch aluminum bolt-on shocks to our patented position sensitive internal bypass shocks. We also offer suspension systems, or lift kits, containing our suspension components, for use in trucks.

### Research and development

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

performance. Our testing center collects data and tests products prior to and after commercial introduction. Suspension products undergo a variety of rigorous performance and accelerated life tests before they are introduced into the market. The research and development portion of our total engineering costs totaled approximately \$17.0 million, \$13.6 million and \$10.4 million in fiscal years 2015, 2014 and 2013, respectively.

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### Intellectual property

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

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

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

### Customers

Our OEM customers include market leaders in their respective categories, and help define, as well as respond to, consumer trends in their respective industries. These OEM customers include our products on a number of their performance models. We believe OEMs often use our products to improve the marketability and demand of their own products, which, in turn, strengthens our brand image. In addition, consumers select our performance products in the aftermarket channel, where we market through a global network of dealers and distributors. We currently sell to more than 200 OEMs and distribute our products to more than 5,000 retail dealers and distributors worldwide. In 2015, 63% of our sales resulted from sales to OEM customers and 37% resulted from sales to dealers and distributors for resale in the aftermarket channel. No material portion of our business is subject to renegotiation of profit or termination of contracts or subcontracts at the election of the US government.

Sales attributable to our 10 largest OEM customers, which can vary from year-to-year, collectively accounted for approximately 42%, 47% and 57% of our sales in 2015, 2014 and 2013, respectively. The decrease in the sales to the top 10 OEM customers in 2015 and 2014 as compared to 2013 is primarily attributable to our acquisitions which have further diversified our customer base. Additionally, we experienced a temporary decline in sales to one of our key power vehicle customers in 2015 due to model year change over.

Although we refer to the branded bike OEMs that use our products throughout this document as "our customers," "our OEM customers" or "our bike OEM customers," branded bike OEMs often use contract manufacturers to manufacture and assemble their bikes. As a result, even though we typically negotiate price and volume requirements directly with our bike OEM customers, it is the contract manufacturer that may place the purchase order and therefore assumes the responsibility for paying us. Our sales to Giant Bicycles, or Giant, a branded bike OEM and a contract manufacturer used by certain of our bike OEM customers, accounted for approximately 12%, 14% and 17% of our sales in 2015, 2014 and 2013, respectively.

Our domestic sales totaled \$163.1 million, \$128.3 million and \$96.1 million, or 44%, 42% and 35% of our total sales in 2015, 2014 and 2013, respectively. Our international sales totaled \$203.7 million, \$178.4 million and \$176.6 million or 56%, 58% and 65% of our total sales in 2015, 2014 and 2013, respectively. Sales attributable to countries outside the United States are based on shipment location. Our international sales, however, do not necessarily reflect the location of the end users of our products, as many of our products are incorporated into bikes that are assembled at international locations and then shipped back to the United States. Additional information about our product segments and certain geographical information is available in Note 14 - Segments and Geographic Areas, of the notes to consolidated financial statements.

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

### Bikes



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

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

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### Powered vehicles

We sell our suspension products for the powered vehicles industry to OEMs, including BRP, Ford, Yamaha, and Polaris. We are also currently developing relationships with new OEMs, as the powered vehicles market continues to grow. After incorporating our products on their powered vehicles, OEMs typically sell their powered vehicles to independent dealers, which then sell directly to consumers.

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

Our product offerings currently target performance suspension 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. Our products have also been used on limited quantities of off-road military vehicles and other select small-scale military applications. We also offer suspension systems, or lift kits, for trucks.

### Sales and marketing

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

Our marketing strategy focuses on strengthening and promoting our brands in the marketplace. We strategically focus our marketing efforts on enthusiasts seeking high-end ride dynamics systems through promotions at destination riding locations and individual and team sponsorships. We believe that the performance of our products has been demonstrated by, and our brand benefits from, the success of professional athletes who use our products in elite competitive events, such as the Union Cycliste Internationale Mountain Bike World Cup and the X Games. We also believe these successes positively influence the purchasing habits of enthusiasts and other consumers seeking performance products. We believe that our strategic focus on the performance and racing segments in our markets, including our sponsorships of a number of professional athletes and race teams, influences many aspiring and enthusiast consumers and enables our products to be sold at premium price points. In order to continue to enhance our brand image, we will need to maintain our position in the suspension products industry and to continue to provide high quality products and services. We have also been able to develop long-term strategic relationships with leading OEMs. Our reputation for performance suspension products plays a critical role in our aftermarket sales to consumers. In addition to our website and traditional marketing channels, such as print advertising and tradeshow, we maintain an active social media presence, including an Instagram feed, Facebook page, YouTube channel, Vimeo channel and Twitter feed to increase brand awareness, foster loyalty and build a community of users. As strategies and marketing plans are developed for our products, our internal marketing and communications group work to ensure brand cohesion and consistency.

### Manufacturing and backlog

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

During 2015, we completed the process of moving a majority of the manufacturing of our bike suspension component products to our facility in Taichung, Taiwan. In connection with our transition, we are utilizing, and expect to continue to utilize, suppliers who are located closer to our facility in Taichung, Taiwan for a number of materials and components. In certain cases, we may retain the ability to manufacture bike suspension components in our facility in Watsonville, California thereby providing us with dual manufacturing facilities and reducing the risk of interruptions in our production chain. Now that the transition of the majority of our bike suspension component manufacturing operations i