

Compass Group Diversified Holdings LLC

Form 10-Q

November 07, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2012

Or

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

For the transition period from to

COMPASS DIVERSIFIED HOLDINGS

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

001-34927
(Commission file number)

57-6218917
(I.R.S. employer
identification number)

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

001-34926
(Commission file number)

20-3812051
(I.R.S. employer
identification number)

Sixty One Wilton Road

Second Floor

Westport, CT 06880

(203) 221-1703

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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, or a non-accelerated filer. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act

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Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ 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 1, 2012, there were 48,300,000 shares of Compass Diversified Holdings outstanding.

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COMPASS DIVERSIFIED HOLDINGS
QUARTERLY REPORT ON FORM 10-Q

For the period ended September 30, 2012

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NOTE TO READER

In reading this Quarterly Report on Form 10-Q, references to:

the Trust and Holdings refer to Compass Diversified Holdings;

businesses, operating segments, subsidiaries and reporting units refer to, collectively, the businesses controlled by the Company;

the Company refer to Compass Group Diversified Holdings LLC;

the Manager refer to Compass Group Management LLC (CGM);

the initial businesses refer to, collectively, Staffmark Holdings, Inc. (Staffmark), Crosman Acquisition Corporation, Compass AC Holdings, Inc. (ACI or Advanced Circuits) and Silvue Technologies Group, Inc.;

the 2011 acquisition refer to the acquisition of CamelBak Products, LLC (CamelBak);

the 2012 acquisition refer to the acquisition of Arnold Magnetic Technologies Holdings Corporation (Arnold or Arnold Magnetics);

the Trust Agreement refer to the amended and restated Trust Agreement of the Trust dated as of November 1, 2010;

the Credit Facility refer to a credit agreement (as amended) with a group of lenders led by Toronto Dominion (Texas) LLC, as agent, which provides for the Revolving Credit Facility and the Term Loan Facility;

the Revolving Credit Facility refer to the \$290 million Revolving Credit Facility provided by the Credit Facility that matures in October 2016;

the Term Loan Facility refer to the \$253.2 million Term Loan Facility, as of September 30, 2012, provided by the Credit Facility that matures in October 2017;

the LLC Agreement refer to the third amended and restated operating agreement of the Company dated as of November 1, 2010; and

we, us and our refer to the Trust, the Company and the businesses together.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, contains both historical and forward-looking statements. We may, in some cases, use words such as project, predict, believe, anticipate, plan, expect, estimate, intend, should, would, could, potentially, or may, or other uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of risks and uncertainties, some of which are beyond our control, including, among other things:

our ability to successfully operate our businesses on a combined basis, and to effectively integrate and improve future acquisitions;

our ability to remove CGM and CGM's right to resign;

our organizational structure, which may limit our ability to meet our dividend and distribution policy;

our ability to service and comply with the terms of our indebtedness;

our cash flow available for distribution and reinvestment and our ability to make distributions in the future to our shareholders;

our ability to pay the management fee, profit allocation when due and supplemental put price if and when due;

our ability to make and finance future acquisitions;

our ability to implement our acquisition and management strategies;

the regulatory environment in which our businesses operate;

trends in the industries in which our businesses operate;

changes in general economic or business conditions or economic or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;

environmental risks affecting the business or operations of our businesses;

our and CGM's ability to retain or replace qualified employees of our businesses and CGM;

costs and effects of legal and administrative proceedings, settlements, investigations and claims; and

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extraordinary or force majeure events affecting the business or operations of our businesses.

Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. The forward-looking events discussed in this Quarterly Report on Form 10-Q may not occur. These forward-looking statements are made as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents**PART I****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Compass Diversified Holdings****Condensed Consolidated Balance Sheets**

<i>(in thousands)</i>	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,989	\$ 131,973
Accounts receivable, less allowances of \$3,588 at September 30, 2012 and \$2,420 at December 31, 2011	119,532	69,114
Inventories	135,499	96,312
Prepaid expenses and other current assets	20,949	22,758
Current assets of discontinued operations		40,064
Total current assets	295,969	360,221
Property, plant and equipment, net	63,733	43,579
Goodwill	257,014	205,567
Intangible assets, net	348,218	328,070
Deferred debt issuance costs, less accumulated amortization of \$1,553 at September 30, 2012 and \$227 at December 31, 2011	8,748	6,942
Other non-current assets	16,129	13,889
Non-current assets of discontinued operations		71,638
Total assets	\$ 989,811	\$ 1,029,906
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 64,028	\$ 36,612
Accrued expenses	50,186	36,386
Due to related party	3,950	4,239
Current portion of supplemental put obligation	5,200	13,675
Current portion, long-term debt	2,550	2,250
Other current liabilities	1,955	1,694
Current liabilities of discontinued operations		23,306
Total current liabilities	127,869	118,162
Supplemental put obligation	37,005	35,814
Deferred income taxes	63,723	49,088
Long-term debt, less original issue discount	262,285	214,000
Other non-current liabilities	7,536	2,875
Non-current liabilities of discontinued operations		13,489
Total liabilities	498,418	433,428
Stockholders' equity		
Trust shares, no par value, 500,000 authorized; 48,300 shares issued and outstanding at September 30, 2012 and December 31, 2011	648,036	658,361

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Accumulated other comprehensive loss	(363)	
Accumulated deficit	(211,177)	(160,852)
Total stockholders' equity attributable to Holdings	436,496	497,509
Noncontrolling interest	54,897	95,257
Noncontrolling interest of discontinued operations		3,712
Total stockholders' equity	491,393	596,478
Total liabilities and stockholders' equity	\$ 989,811	\$ 1,029,906

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Operations

(unaudited)

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Discontinued operations	(0.01)	0.16	(0.03)	0.25
	\$ 0.07	\$ 0.17	\$ 0.06	\$ 0.16
Weighted average number of shares of trust stock outstanding basic and fully diluted	48,300	47,376	48,300	46,944
Cash distributions declared per share (refer to Note L)	\$ 0.36	\$ 0.36	\$ 1.08	\$ 1.08

See notes to condensed consolidated financial statements.

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Compass Diversified Holdings

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<i>(in thousands)</i>				
Net income	\$ 6,445	\$ 12,470	\$ 9,546	\$ 14,169
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment	424		(363)	
Total comprehensive income, net of tax	\$ 6,869	\$ 12,470	\$ 9,183	\$ 14,169

See notes to condensed consolidated financial statements.

Table of Contents**Compass Diversified Holdings****Condensed Consolidated Statement of Stockholders' Equity****(unaudited)**

	Number of		Accumulated	Accumulated	Stockholders	Non-	Non-	Total
(in thousands)	Shares	Amount	Deficit	Other Comprehensive Loss	Equity Attributable to Holdings	Controlling Interest	Interest of Disc. Ops.	Stockholders' Equity
Balance January 1, 2012	48,300	\$ 658,361	\$ (160,852)	\$	\$ 497,509	\$ 95,257	\$ 3,712	\$ 596,478
Net income (loss)			2,776		2,776	6,996	(226)	9,546
Other comprehensive loss - foreign currency translation				(363)	(363)			(363)
Proceeds received from Arnold noncontrolling shareholders						1,713		1,713
Proceeds received from noncontrolling shareholders						2,916		2,916
Distribution to noncontrolling shareholders related to the Fox recapitalization (refer to Note F)		(8,544)			(8,544)	(6,555)		(15,099)
Accretion - CamelBak preferred stock			(937)		(937)	937		
Redemption of noncontrolling interest holders		(1,781)			(1,781)	(1,578)		(3,359)
Redemption of CamelBak preferred stock						(48,022)		(48,022)
Option activity attributable to noncontrolling shareholders						3,233		3,233
HALO disposition							(3,486)	(3,486)
Distributions paid			(52,164)		(52,164)			(52,164)
Balance September 30, 2012	48,300	\$ 648,036	\$ (211,177)	\$ (363)	\$ 436,496	\$ 54,897	\$	\$ 491,393

See notes to condensed consolidated financial statements.

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Compass Diversified Holdings

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Nine months ended September 30,	
	2012	2011
<i>(in thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 9,546	\$ 14,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	10,771	7,329
Amortization expense	27,102	26,024
Impairment expense		7,700
Amortization of debt issuance costs and original issue discount	3,277	1,543
Supplemental put expense	6,391	6,095
Unrealized loss on interest rate swap	2,108	
Noncontrolling stockholder charges and other	3,250	2,210
Deferred taxes	(2,315)	(5,687)
Other	1,399	1,036
Changes in operating assets and liabilities, net of acquisition:		
Increase in accounts receivable	(22,898)	(23,229)
Increase in inventories	(22,563)	(146)
Increase in prepaid expenses and other current assets	(1,674)	(806)
Increase in accounts payable and accrued expenses	20,661	28,451
Payment of supplemental put liability	(13,675)	(6,892)
Net cash provided by operating activities	21,380	57,797
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(125,434)	(258,559)
Purchases of property and equipment	(9,718)	(15,099)
Proceeds released from escrow related to Staffmark sale	5,045	
Proceeds related to HALO sale	66,473	
Purchase of noncontrolling interest	(15,128)	
Other investing activities	974	140
Net cash used in investing activities	(77,788)	(273,518)
Cash flows from financing activities:		
Proceeds from the issuance of Trust shares, net		19,684
Borrowings under Credit Facility	169,500	270,000
Repayments under Credit Facility	(122,867)	(73,500)
Proceeds from issuance of CamelBak preferred stock		45,000
Redemption of CamelBak preferred stock	(48,022)	
Distributions paid	(52,164)	(49,529)
Net proceeds provided by noncontrolling shareholders	11,833	2,016
Net proceeds paid to noncontrolling shareholders related to Fox	(16,289)	
Debt issuance costs	(3,154)	(593)
Excess tax benefit on stock-based compensation	5,755	
Other	(366)	(329)
Net cash (used in) provided by financing activities	(55,774)	212,749

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Foreign currency impact on cash	(199)	
Net decrease in cash and cash equivalents	(112,381)	(2,972)
Cash and cash equivalents beginning of period	132,370	13,536
Cash and cash equivalents end of period	\$ 19,989	\$ 10,564

See notes to condensed consolidated financial statements.

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Compass Diversified Holdings

Notes to Condensed Consolidated Financial Statements (unaudited)

September 30, 2012

Note A Organization and business operations

Compass Diversified Holdings, a Delaware statutory trust (Holdings), was organized in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability company (the Company), was also formed on November 18, 2005. Compass Group Management LLC, a Delaware limited liability company (CGM or the Manager), was the sole owner of 100% of the Interests of the Company as defined in the Company's operating agreement, dated as of November 18, 2005, which were subsequently reclassified as the Allocation Interests pursuant to the Company's amended and restated operating agreement, dated as of April 25, 2006 (as amended and restated, the LLC Agreement).

The Company is a controlling owner of eight businesses, or operating segments, at September 30, 2012. The operating segments are as follows: Compass AC Holdings, Inc. (ACI or Advanced Circuits), American Furniture Manufacturing, Inc. (AFM or American Furniture), Arnold Magnetic Technologies Holdings Corporation (Arnold or Arnold Magnetics), CamelBak Products, LLC (CamelBak), The ERGO Baby Carrier, Inc. (ERGObaby), Fox Factory, Inc. (Fox), Liberty Safe and Security Products, Inc. (Liberty Safe or Liberty), and Tridien Medical, Inc. (Tridien). Refer to Note F for further discussion of the operating segments.

Note B Presentation and principles of consolidation

The condensed consolidated financial statements for the three and nine month periods ended September 30, 2012 and September 30, 2011, are unaudited, and in the opinion of management, contain all adjustments necessary for a fair presentation of the condensed consolidated financial statements. Such adjustments consist solely of normal recurring items. Interim results are not necessarily indicative of results for a full year or any subsequent interim period. The condensed consolidated financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of the Company. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Seasonality

Earnings of certain of the Company's operating segments are seasonal in nature. Earnings from AFM are typically highest in the months of January through April of each year, coinciding with homeowners' tax refunds. Revenue and earnings from Fox are typically highest in the third quarter, coinciding with the delivery of product for the new bike year. Earnings from Liberty are typically lowest in the second quarter due to lower demand for safes at the onset of summer. Earnings from CamelBak are typically higher in the spring and summer months as this corresponds with warmer weather in the Northern Hemisphere and an increase in hydration related activities.

Consolidation

The condensed consolidated financial statements include the accounts of Holdings and all majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

Certain amounts in the historical condensed consolidated financial statements have been reclassified to conform to the current period presentation. American Furniture implemented a revised standard costing system during 2011 which required American Furniture to reclassify certain costs between cost of sales and selling, general and administrative expenses. The change in format consists of reclassifying the trucking fleet expenses from selling, general and administrative expenses into cost of sales, as well as reclassifying certain manufacturing related expenses including rent, insurance, utilities and workers' compensation from selling, general and administrative costs to cost of sales. Management believes that the format of reporting cost of sales going forward together with the revised standard costing system and the revaluation of standard costs will allow management to more timely react to changes in supply costs, product demand and overall price structure going forward which in turn should eliminate the accumulation of lower margin product and allow for more advantageous product procurement and the proper utilization of available assets. The reclassification from selling, general and administrative expense to cost of sales during the

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three and nine months ended September 30, 2011 was \$1.5 million and \$4.6 million, respectively. This reclassification lowered the historical gross profit recorded in these periods but had no net impact on operating income (loss) or net income (loss). In addition, this reclassification had no impact on the financial position or cash flows during these periods.

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Discontinued Operations

On May 1, 2012, the Company sold its majority owned subsidiary, HALO. As a result, the results of operations for the periods from January 1, 2012 through the date of sale and the three and nine months ended September 30, 2011, respectively, have been reclassified to exclude discontinued operations in accordance with accounting guidelines. In addition, HALO's assets and liabilities have been reclassified as discontinued operations as of December 31, 2011. Refer to Note E for further discussion.

Note C Recent accounting pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued amended guidance for performing indefinite-lived intangible impairment tests, which will be effective for us January 1, 2013. It allows the Company to perform a qualitative assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary. The Company does not expect the adoption of the amended guidance will have a significant impact on the condensed consolidated financial statements.

In September 2011, the FASB issued amended guidance for performing goodwill impairment tests, which was effective for the Company beginning January 1, 2012. The guidance amended the two-step goodwill impairment test by permitting an entity to first assess qualitative factors in determining whether the fair value of a reporting unit is less than its carrying amount. The adoption of the amended guidance did not have a significant impact on the condensed consolidated financial statements.

In June 2011, the FASB issued amended guidance for presenting comprehensive income, which was effective for the Company beginning January 1, 2012. The amended guidance eliminated the option to present other comprehensive income and its components in the statement of stockholders' equity. The Company elected to present the items of net income and other comprehensive income in two separate, but consecutive statements. The adoption of the amended guidance did not have a significant impact on the condensed consolidated financial statements.

In May 2011, the FASB issued amended guidance for measuring fair value and required disclosure information about such measures, which was effective for the Company beginning January 1, 2012, and applied prospectively. The amended guidance requires an entity to disclose all transfers between Level 1 and Level 2 of the fair value hierarchy as well as provide quantitative and qualitative disclosures related to Level 3 fair value measurements. Additionally, the amended guidance requires an entity to disclose the fair value hierarchy level which was used to determine the fair value of financial instruments that are not measured at fair value, but for which fair value information must be disclosed. The adoption of the amended guidance did not have a significant impact on the condensed consolidated financial statements.

Note D Acquisition of business

Acquisition of Arnold Magnetics

On March 5, 2012, AMT Acquisition Corp. (Arnold Acquisition), a subsidiary of the Company, entered into a stock purchase agreement with Arnold Magnetic Technologies, LLC, and Arnold Magnetics pursuant to which Arnold Acquisition acquired all of the issued and outstanding equity of Arnold Magnetics.

Based in Rochester, NY with an operating history of more than 100 years, Arnold is a leading global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets, including energy, medical, aerospace and defense, consumer electronics, general industrial and automotive. From its nine manufacturing facilities located in the United States, the United Kingdom, Switzerland and China, Arnold produces high performance permanent magnets, flexible magnets and precision foil products that are mission critical in motors, generators, sensors and other systems and components. Based on its long-term relationships, Arnold has built a diverse and blue-chip customer base totaling more than 2,000 clients worldwide.

The Company made loans to and purchased a 96.6% controlling interest in Arnold on a primary and fully diluted basis. The purchase price, including proceeds from noncontrolling interests, was approximately \$130.5 million (excluding acquisition-related costs). Acquisition related costs were approximately \$4.8 million and were recorded to selling, general and administrative expense during the nine months ended September 30, 2012. The Company funded the acquisition through available cash on its balance sheet and a draw of \$25 million on its Revolving Credit Facility. Arnold's management and certain other investors invested in the transaction alongside the Company, collectively representing 3.4% initial noncontrolling interest on a primary and fully diluted basis. CGM acted as an advisor to the Company in the transaction and received fees and expense payments totaling approximately \$1.2 million.

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The results of operations of Arnold have been included in the consolidated results of operations from the date of acquisition. Arnold's results of operations are reported as a separate operating segment.

The table below includes the preliminary assets and liabilities assumed as of the acquisition date.

<u>Arnold</u>	Amounts Recognized as of Acquisition Date
<i>(in thousands)</i>	
<i>Assets:</i>	
Cash	\$ 6,965
Accounts receivable, net (1)	18,728
Inventory (2)	20,550
Other current assets	3,391
Property, plant and equipment (3)	20,805
Intangible assets	41,700
Goodwill (4)	51,441
Other assets	6,478
 Total assets	 \$ 170,058
<i>Liabilities and noncontrolling interests:</i>	
Current liabilities	\$ 24,374
Other liabilities	98,417
Noncontrolling interest (5)	1,713
 Total liabilities and noncontrolling interest	 \$ 124,504
 Net assets acquired	 \$ 45,554
Noncontrolling interest	1,713
Intercompany loans to businesses	85,500
	\$ 132,767

- (1) Includes \$19.1 million of gross contractual accounts receivable, of which \$0.4 million was not expected to be collected. The fair value of accounts receivable approximated book value acquired.
- (2) Includes \$3.0 million of inventory fair value step up. This balance was fully amortized during the nine months ended September 30, 2012.
- (3) Includes \$13.8 million of property, plant and equipment fair value step up.
- (4) Goodwill is not deductible for tax purposes.
- (5) Fair value of noncontrolling interest approximates book value.

The intangible assets preliminarily recorded in connection with the Arnold Magnetics acquisition are as follows *(in thousands)*:

Intangible assets	Amount	Estimated Useful Life
Customer relationships	\$ 22,770	15
Technology	11,790	10
Technology	1,260	7
Other	90	less than one year
Trade name	5,370	10
Trade name	420	5

\$ 41,700

Joint Venture

Arnold Magnetics is a 50% partner in a China rare earth mine-to-magnet joint venture. Arnold Magnetics accounts for its activity in the joint venture utilizing the equity method of accounting. Gains and losses from the joint venture are not material for the nine months ended September 30, 2012.

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Unaudited pro-forma information

The following unaudited pro-forma data for the nine months ended September 30, 2012 and 2011 gives effect to the acquisition of Arnold Magnetics, as described above, as if the acquisition had been completed as of January 1, 2011. The pro forma data gives effect to historical operating results with adjustments to interest expense, amortization and depreciation expense, management fees and related tax effects. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transaction had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representing results for any future period.

(in thousands)	Nine months ended September 30,	
	2012	2011
Net sales	\$ 689,820	\$ 549,201
Operating income	50,869	23,172
Net income	9,923	15,250
Net income attributable to Holdings	3,153	8,581
Basic and diluted net income attributable to Holdings	\$ 0.07	\$ 0.18

Other acquisition

On May 23, 2012, the Company's subsidiary, Advanced Circuits, completed the acquisition of Universal Circuits, Inc. a manufacturer of printed circuit boards, for approximately \$2.8 million. The manufacturing facility is located in Maple Grove, Minnesota. This acquisition expands ACI's capabilities and provides immediate access to manufacturing capabilities of more advanced higher tech PCBs. The following is a preliminary summary of the assets and liabilities recorded in connection with this acquisition, pending finalization of the valuation efforts:

Assets:	
Accounts receivable	\$ 2,304
Inventory	747
Property, plant and equipment	934
Goodwill	
Intangible asset, non-compete	19
Intangible asset, customer relationships	393
Total assets	\$ 4,397
Liabilities:	
Accounts payable and accrued expenses	\$ 2,282
Note payable	812
Total liabilities	\$ 3,094

Note E Discontinued operations

On May 1, 2012, the Company sold its majority owned subsidiary HALO, to Candlelight Investment Holdings, Inc., for a total enterprise value of \$76.5 million. The transaction is subject to customary escrow requirements and adjustment for certain changes in the working capital of HALO. The HALO purchase agreement contains customary representations, warranties, covenants and indemnification provisions.

At the closing, the Company received approximately \$66.5 million in cash in respect of its debt and equity interests in HALO and for the payment of accrued interest and fees after payments to non-controlling shareholders and payment of all transaction expenses. The Company also subsequently received approximately \$0.6 million of proceeds that were held in escrow. In addition, the Company expects to receive a tax refund of approximately \$1.1 million resulting from the tax benefit of the transaction expenses incurred in connection with the transaction. The Company recognized a loss of \$0.5 million for the nine months ended September 30, 2012 as a result of the sale of HALO. The net proceeds were used to repay outstanding debt under the Company's Revolving Credit Facility.

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Summarized operating results for HALO for the three and nine months ended September 30, 2011, and January 1, 2012 through the date of disposition were as follows (*in thousands*):

	Three months ended Sept. 30, 2011	For the period Jan. 1, 2012 through disposition	Nine months ended Sept. 30, 2011
Net sales	\$ 43,651	\$ 51,253	\$ 115,633
Operating income (loss)	2,489	(2,141)	4,919
Income (loss) from continuing operations before income taxes	2,488	(2,141)	4,974
Provision (benefit) for income taxes	719	(973)	969
Income (loss) from discontinued operations (1)	\$ 1,769	\$ (1,168)	\$ 4,005

(1) The results for the periods from January 1, 2012 through disposition, the three months ended September 30, 2011, and the nine months ended September 30, 2011, exclude \$0.7 million, \$0.5 million and \$1.6 million of intercompany interest expense, respectively. Income from discontinued operations for the three and nine months ended September 30, 2011 on the condensed consolidated income statements also include \$7.6 million and \$9.8 million, respectively, of income from discontinued operations related to the Staffmark sale in October 2011.

The following table presents summary balance sheet information of HALO as of December 31, 2011 (*in thousands*):

	December 31, 2011
Assets:	
Cash	\$ 397
Accounts receivable, net	30,275
Inventories	4,709
Prepaid expenses and other current assets	4,683
Current assets of discontinued operations	\$ 40,064
Property, plant and equipment, net	1,656
Goodwill	39,773
Intangible assets, net	30,034
Other non-current assets	175
Non-current assets of discontinued operations	\$ 71,638
Liabilities:	
Accounts payable	14,014
Accrued expenses and other current liabilities	9,292
Current liabilities of discontinued operations	\$ 23,306
Deferred income taxes	13,396

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Other non-current liabilities	93
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Non-current liabilities of discontinued operations	\$ 13,489
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Noncontrolling interest of discontinued operations	\$ 3,712
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Note F Operating segment data

At September 30, 2012, the Company had eight reportable operating segments. Each operating segment represents a platform acquisition. The Company's operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. A description of each of the reportable segments and the types of products and services from which each segment derives its revenues is as follows:

Advanced Circuits, an electronic components manufacturing company, is a provider of prototype, quick-turn and volume production rigid printed circuit boards. ACI manufactures and delivers custom printed circuit boards to customers mainly in North America. ACI is headquartered in Aurora, Colorado.

American Furniture is a leading domestic manufacturer of upholstered furniture for the promotional segment of the marketplace. AFM offers a broad product line of stationary and motion furniture, including sofas, loveseats, sectionals, recliners and complementary products, sold primarily at retail price points ranging between \$199 and \$1,399. AFM is a low-cost manufacturer and is able to ship most products in its line within 48 hours of receiving an order. AFM is headquartered in Ecru, Mississippi and its products are sold in the United States.

Arnold Magnetics is a leading global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets, including energy, medical, aerospace and defense, consumer electronics, general industrial and automotive. Arnold Magnetics produces high performance permanent magnets, flexible magnets and precision foil products that are mission critical in motors, generators, sensors and other systems and components. Based on its long-term relationships, the company has built a diverse and blue-chip customer base totaling more than 2,000 clients worldwide. Arnold Magnetics is headquartered in Rochester, New York.

CamelBak is a designer and manufacturer of personal hydration products for outdoor, recreation and military use. CamelBak offers a complete line of technical hydration packs, reusable BPA-free water bottles, performance hydration accessories, specialized military gloves and performance accessories. Through its global distribution network, CamelBak products are available in more than 50 countries worldwide. CamelBak is headquartered in Petaluma, California.

ERGObaby is a premier designer, marketer and distributor of babywearing products and accessories, and a premium line of stroller travel systems. ERGObaby's reputation for product innovation, reliability and safety has led to numerous awards and accolades from consumer surveys and publications. ERGObaby offers a broad range of wearable baby carriers and related products that are sold through more than 900 retailers and web shops in the United States and internationally. ERGObaby is headquartered in Los Angeles, California.

Fox is a designer, manufacturer and marketer of high end suspension products for mountain bikes, all-terrain vehicles, snowmobiles and other off-road vehicles. Fox acts as both a tier one supplier to leading action sport original equipment manufacturers and provides after-market products to retailers and distributors. Fox is headquartered in Scotts Valley, California and its products are sold worldwide.

Liberty Safe is a designer, manufacturer and marketer of premium home and gun safes in North America. From its over 200,000 square foot manufacturing facility, Liberty produces a wide range of home and gun safe models in a broad assortment of sizes, features and styles. Liberty is headquartered in Payson, Utah.

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Tridien is a leading designer and manufacturer of powered and non-powered medical therapeutic support surfaces and patient positioning devices serving the acute care, long-term care and home health care markets. Tridien is headquartered in Coral Springs, Florida and its products are sold primarily in North America.

The tabular information that follows shows data for each of the operating segments reconciled to amounts reflected in the consolidated financial statements. The operations of each of the operating segments are included in consolidated operating results as of their date of acquisition.

Segment profit is determined based on internal performance measures used by the Chief Executive Officer to assess the performance of each business. Segment profit excludes certain charges from the acquisitions of the Company's initial businesses not pushed down to the segments which are reflected in the Corporate and other line item. There were no significant inter-segment transactions.

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A disaggregation of the Company's consolidated revenue and other financial data for the three and nine months ended September 30, 2012 and 2011 is presented below (*in thousands*):

<i>Net sales of operating segments</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
ACI	\$ 22,229	\$ 19,592	\$ 62,878	\$ 59,905
American Furniture	20,728	23,695	72,359	83,112
Arnold Magnetics	31,951		75,787	
CamelBak	36,672	16,059	121,140	16,059
ERGObaby	18,540	10,726	45,565	33,383
Fox	72,865	61,689	179,256	150,464
Liberty	23,385	21,786	67,000	60,611
Tridien	14,858	15,120	42,586	42,917
Total	241,228	168,667	666,571	446,451
Reconciliation of segment revenues to consolidated revenues:				
Corporate and other				
Total consolidated revenues	\$ 241,228	\$ 168,667	\$ 666,571	\$ 446,451

International Revenues

Revenues from geographic locations outside the United States were not material for any operating segment, except Fox, ERGObaby, CamelBak and Arnold, in each of the periods presented. Fox recorded net sales to locations outside the United States, principally Europe and Asia, of \$50.2 million and \$42.4 million for the three months ended September 30, 2012 and 2011, respectively, and \$113.7 million and \$100.7 million for the nine months ended September 30, 2012 and 2011, respectively. ERGObaby recorded net sales to locations outside the United States of \$11.2 million and \$6.4 million for the three months ended September 30, 2012 and 2011, respectively, and \$26.7 million and \$21.5 million for the nine months ended September 30, 2012 and 2011, respectively. CamelBak recorded net sales to locations outside the United States of \$5.2 million and \$20.4 million for the three and nine months ended September 30, 2012. CamelBak recorded net sales to locations outside the United States of \$2.1 million for the three and nine months ended September 30, 2011. Arnold Magnetics recorded net sales to locations outside the United States of \$13.9 million and \$44.0 million for the three and nine months ended September 30, 2012. There were no significant inter-segment transactions.

<i>Profit (loss) of operating segments ⁽¹⁾</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
ACI	\$ 6,273	\$ 6,609	\$ 18,349	\$ 20,496
American Furniture (2)	(581)	(2,510)	(1,032)	(12,105)
Arnold Magnetics (3)	2,031		(1,795)	
CamelBak	5,085	(3,808)	21,105	(3,808)
ERGObaby	4,240	2,547	7,905	7,132
Fox	10,991	10,017	22,137	19,643
Liberty	2,051	1,457	4,268	3,370
Tridien	1,130	1,669	3,054	4,011
Total	31,220	15,981	73,991	38,739
Reconciliation of segment profit to consolidated income from continuing operations before income taxes:				
Interest expense, net	(5,916)	(2,154)	(19,609)	(6,101)
Other income (expense), net	173	(78)	(223)	(78)
Corporate and other (4)	(11,337)	(7,589)	(25,862)	(22,791)

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Total consolidated income from continuing operations before income taxes	\$	14,140	\$	6,160	\$	28,297	\$	9,769
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- (1) Segment profit (loss) represents operating income (loss).
- (2) Includes \$7.7 million of goodwill and intangible asset impairment charges during the nine months ended September 30, 2011.
- (3) Includes acquisition-related costs in connection with the acquisition of Arnold expensed in accordance with acquisition accounting.
- (4) Includes fair value adjustments related to the supplemental put liability.

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<i>Accounts receivable</i>	Accounts Receivable September 30, 2012	Accounts Receivable December 31, 2011
ACI	\$ 6,960	\$ 5,102
American Furniture	11,991	10,306
Arnold Magnetics	19,231	
CamelBak	23,436	17,111
ERGObaby	6,722	2,867
Fox	33,791	18,635
Liberty	15,088	13,331
Tridien	5,901	4,182
Total	123,120	71,534
Reconciliation of segment to consolidated totals:		
Corporate and other		
Total	123,120	71,534
Allowance for doubtful accounts	(3,588)	(2,420)
Total consolidated net accounts receivable	\$ 119,532	\$ 69,114

	Goodwill Sept. 30, 2012	Goodwill Dec. 31, 2011	Identifiable Assets Sept. 30, 2012 ⁽¹⁾	Identifiable Assets Dec. 31, 2011 ⁽¹⁾
<u>Goodwill and identifiable assets of operating segments</u>				
ACI	\$ 57,615	\$ 57,615	\$ 24,621	\$ 26,329
American Furniture			23,137	20,306
Arnold Magnetics	51,254		92,178	
CamelBak	5,546	5,546	232,891	239,905
ERGObaby	41,664	41,471	70,753	74,457
Fox	31,372	31,372	93,571	80,392
Liberty	32,684	32,684	39,824	40,064
Tridien	19,555	19,555	18,592	19,139
Total	239,690	188,243	595,567	500,592
Reconciliation of segment to consolidated total:				
Corporate and other identifiable assets ⁽²⁾			17,698	142,931
Goodwill carried at Corporate level ⁽³⁾	17,324	17,324		
Total	\$ 257,014	\$ 205,567	\$ 613,265	\$ 643,523

(1) Does not include accounts receivable balances per schedule above.

(2) Corporate assets were reduced during the nine months ended September 30, 2012 primarily as a result of cash at December 31, 2011 utilized to fund the acquisition of Arnold Magnetics.

(3) Represents goodwill resulting from purchase accounting adjustments not pushed down to the segments. This amount is allocated back to the respective segments for purposes of goodwill impairment testing.

Other segment information

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Repurchase of CamelBak preferred stock

On March 6, 2012, CamelBak redeemed its 11% convertible preferred stock for \$45.3 million plus accrued dividends of \$2.7 million, from an affiliate of CGI Magyar Holdings, LLC (\$47.7 million), the Company's largest shareholder, and noncontrolling shareholders (\$0.3 million). The Company funded the redemption with its cash through intercompany debt and an equity contribution from the Company of \$19.2 million and \$25.9 million, respectively. In addition, noncontrolling shareholders of CamelBak invested \$2.9 million of equity in order for the Company and noncontrolling shareholders to maintain existing ownership percentages of CamelBak common stock of 89.9% and 10.1%, respectively.

Recapitalization of Fox

On June 18, 2012, the Company entered into an amendment (the "Amendment") to the inter-company loan agreement with Fox (the "Loan Agreement"). The Loan Agreement was amended to (i) provide for term loan borrowings of \$60 million and

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an increase to the revolving loan commitment of \$2.0 million and to permit the proceeds thereof to fund cash distributions totaling \$67.0 million by Fox to the Company and to its non-controlling shareholders, (ii) extend the maturity dates of the term loans under the Loan Agreement, and (iii) modify borrowing rates under the Loan Agreement. The Company's share of the cash distribution was approximately \$50.7 million with approximately \$16.3 million being distributed to Fox's non-controlling shareholders. All other material terms and conditions of the Loan Agreement were unchanged. The table below summarizes the stockholders' equity impact as a result of the transaction.

Recapitalization proceeds to existing shareholders	\$ (13,252)
Shares purchased from noncontrolling holders	(10,969)
Recapitalization proceeds to option holders	(3,036)
Shares purchased by noncontrolling holders	7,204
Tax benefit on options	4,954
	\$ (15,099)

Note G Property, plant and equipment and inventory

Property, plant and equipment is comprised of the following at September 30, 2012 and December 31, 2011 (*in thousands*):

	September 30, 2012	December 31, 2011
Machinery and equipment	\$ 75,936	\$ 49,340
Office furniture, computers and software	6,121	4,030
Leasehold improvements	10,876	9,541
Buildings and land	405	
	93,338	62,911
Less: accumulated depreciation	(29,605)	(19,332)
Total	\$ 63,733	\$ 43,579

Depreciation expense was \$3.9 million and \$1.7 million for the three months ended September 30, 2012 and 2011, respectively, and \$10.8 million and \$4.8 million for the nine months ended September 30, 2012 and 2011, respectively.

Inventory is comprised of the following at September 30, 2012 and December 31, 2011 (*in thousands*):

	September 30, 2012	December 31, 2011
Raw materials and supplies	\$ 88,181	\$ 53,659
Finished goods	55,569	48,596
Less: obsolescence reserve	(8,251)	(5,943)
Total	\$ 135,499	\$ 96,312

Note H Goodwill and other intangible assets

Goodwill represents the difference between purchase cost and the fair value of net assets acquired in business acquisitions. Indefinite lived intangible assets, representing trademarks and trade names, are not amortized until their useful life is determined to no longer be indefinite. Goodwill and indefinite lived intangible assets are tested for impairment annually as of March 31 of each year, unless a triggering event occurs,

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by comparing the fair value of each reporting unit to its carrying value.

2012 Annual goodwill impairment testing

The Company is required to perform impairment reviews of goodwill balances at each of its reporting units at least annually and more frequently in certain circumstances. Each of the Company's businesses represents a reporting unit, except at

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Arnold, which comprises three reporting units. Each of the reporting units is subject to impairment review at March 31, 2012, which represents the annual date for impairment testing, with the exception of American Furniture. The entire balance of American Furniture's goodwill was impaired in 2011.

The FASB issued an Accounting Standards Update 2011-08 (ASU) in September 2011 that permits companies to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If a company concludes that it is more likely than not that the fair value of a reporting unit is not less than its carrying amount it is not required to perform the two-step impairment test for that reporting unit. This ASU was effective for fiscal years beginning after December 15, 2011. At March 31, 2012 the Company elected to use the qualitative assessment alternative to test goodwill for impairment for each of the reporting units that maintain a goodwill carrying value.

As prescribed by the ASU, factors to consider when making the qualitative assessment prior to performing Step 1 of the goodwill impairment test are as follows:

Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets;

Industry and market considerations such as deterioration in the environment in which an entity operates, an increased competitive environment, a decline (both absolute and relative to its peers) in market-dependent multiples or metrics, a change in the market for an entity's products or services, or a regulatory or political development;

Cost factor, such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;

Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;

Other relevant entity-specific events such as litigation, contemplation of bankruptcy, or changes in management, key personnel, strategy, or customers;

Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or a recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit; and

Sustained decrease (both absolute and relative to its peers) in share price, if applicable.

In addition to considering the above factors the Company performed the following procedures as of March 31, 2012 for each of the reporting units;

Compared and assessed Trailing Twelve month (TTM) net sales as of March 31, 2012 to TTM net sales as of March 31, 2011:

Compared and assessed TTM operating income as of March 31, 2012 to TTM operating income as of March 31, 2011;

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Compared and assessed TTM Adjusted EBITDA as of March 31, 2012 to Adjusted EBITDA as of March 31, 2011;

Compared and assessed Adjusted EBITDA for the year-ended December 31, 2011 to budget;

Compared and assessed Adjusted EBITDA for the three-months ended March 31, 2012 to budget;

Compared the fair value of each of the reporting units to its carrying amount using the same metrics as those used in determining the value of the supplemental put as of March 31, 2012 and concluded that in each case the fair value of the reporting unit was in excess of its carrying amount; and

Performed market capitalization reconciliation for the Company and determined that the public market capitalization was significantly in excess of the fair value of the Company's consolidated equity (as derived from the quarterly supplemental put analysis as of March 31, 2012).

Based on the qualitative assessment as outlined, the Company believes that it is more likely than not that the fair value of each of our reporting units is not less than its carrying amount at March 31, 2012.

2011 Annual goodwill impairment testing

The Company conducted its annual goodwill impairment testing as of March 31, 2011. At each of the reporting units tested, the units' fair value exceeded carrying value with the exception of American Furniture. The carrying amount of American Furniture exceeded its fair value due to the significant decrease in revenue and operating profit at American Furniture resulting from the negative impact on the promotional furniture market due to the significant decline in the U.S. housing market, high unemployment rates and aggressive pricing employed by its competitors. As a result of the carrying amount of goodwill exceeding its fair value, the Company recorded a \$5.9 million impairment charge during the three months ended March 31, 2011 which represented the remaining balance of goodwill on American Furniture's balance sheet.

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The carrying amount of American Furniture exceeded its fair value at March 31, 2011 by a significant amount due primarily to the significant decrease in revenue and operating profit together with management's revised outlook on near term operating results. Further, the results of this analysis indicated that the carrying value of American Furniture's trade name exceeded its fair value by approximately \$1.8 million. The fair value of the American Furniture trade name was determined by applying the relief from royalty technique to forecasted revenues at the American Furniture reporting unit.

Other than the qualitative goodwill impairment review discussed above, the estimates employed and judgment used in determining critical accounting estimates have not changed significantly from those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission.

A reconciliation of the change in the carrying value of goodwill for the nine months ended September 30, 2012 and the year ended December 31, 2011, is as follows (*in thousands*):

	Nine months ended September 30, 2012	Year ended December 31, 2011
Beginning balance:		
Goodwill	\$ 247,002	\$ 233,568
Accumulated impairment losses	(41,435)	(35,535)
	205,567	198,033
Impairment losses		(5,900)
Acquisition of businesses (1)	51,441	13,620
Adjustment to purchase accounting	6	(186)
Total adjustments	51,447	7,534
Ending balance:		
Goodwill	298,449	247,002
Accumulated impairment losses	(41,435)	(41,435)
	\$ 257,014	\$ 205,567

⁽¹⁾ Relates to the purchase of Arnold Magnetics in 2012 and CamelBak and Orbit Baby in 2011.

Other intangible assets**2012 Annual indefinite lived impairment testing**

The Company completed its 2012 annual impairment testing on indefinite lived intangible assets as of March 31, 2012 and the results of the testing did not require impairment.

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Other intangible assets are comprised of the following at September 30, 2012 and December 31, 2011 (*in thousands*):

	September 30, 2012	December 31, 2011	Weighted Average Useful Lives
Customer relationships	\$ 191,878	\$ 169,105	12
Technology and patents	89,464	75,679	8
Trade names, subject to amortization	7,595	1,305	10
Licensing and non-compete agreements	7,736	7,417	4
Distributor relations and other	606	516	5
	297,279	254,022	
Accumulated amortization customer relationships	(44,215)	(32,182)	
Accumulated amortization technology and patents	(31,063)	(23,188)	
Accumulated amortization trade names, subject to amortization	(748)	(143)	
Accumulated amortization licensing and non-compete agreements	(4,949)	(2,917)	
Accumulated amortization distributor relations and other	(516)	(452)	
Total accumulated amortization	(81,491)	(58,882)	
Trade names, not subject to amortization	132,430	132,930	
Total intangibles, net	\$ 348,218	\$ 328,070	

Amortization expense related to intangible assets was \$7.7 million and \$5.5 million for the three months ended September 30, 2012 and 2011, respectively, and \$22.6 million and \$14.9 million for the nine months ended September 30, 2012 and 2011, respectively. Estimated charges to amortization expense of intangible assets over the next five years, is as follows, (*in thousands*):

Oct 1, 2012 through Dec. 31, 2012	\$ 7,584
2013	29,002
2014	28,428
2015	24,881
2016	18,634
	\$ 108,529

Note I Debt

On October 27, 2011, the Company obtained a \$515 million credit facility, with an optional \$135 million increase, from a group of lenders led by Toronto Dominion (Texas) LLC. The Credit Facility provides for (i) a Revolving Credit Facility of \$290 million due in October 2016, and (ii) a \$225 million Term Loan Facility due in October 2017. The Term Loan Facility was issued at an original issuance discount of 96% and requires quarterly payments of approximately \$0.56 million commencing March 31, 2012. The Credit Facility is secured by a first priority lien on all the assets of the Company, including, but not limited to, the capital stock of the businesses, loan receivables from the Company's businesses, cash and other assets.

On April 2, 2012, the Company exercised its option for an incremental term loan in the amount of \$30 million. The incremental term loan was issued at 99% of par value and increased the term loans outstanding under the Credit Facility from approximately \$224.4 million to approximately \$254.4 million. The quarterly amortization payments increased to approximately \$0.64 million as a result of this incremental term loan. In addition, the Company amended its Credit Facility to reduce the margin on its LIBOR Loans from 6.00% to 5.00% and on its Base Rate

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Loans from 5.00% to 4.00% and reduce the LIBOR floor from 1.50% to 1.25%. All other terms of the Credit Facility remained unchanged. The Company paid an amendment fee in connection with this amendment of approximately \$2.2 million, and incurred additional fees and expenses of approximately \$0.6 million in the aggregate. Net proceeds from this incremental term loan were used to reduce the Revolving Credit Facility.

The Company had \$19.0 million in outstanding borrowings under its Revolving Credit Facility at September 30, 2012. Borrowing base availability under our Revolving Credit Facility was approximately \$269 million at September 30, 2012. Letters of credit outstanding at September 30, 2012 totaled approximately \$1.7 million. At September 30, 2012, the Company was in compliance with all covenants.

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The following table provides the Company's debt holdings at September 30, 2012 and December 31, 2011 (*in thousands*):

	September 30, 2012	December 31, 2011
Revolving Credit Facility	\$ 19,000	\$
Term Loan Facility	253,163	225,000
Original issue discount	(7,328)	(8,750)
Total debt	\$ 264,835	\$ 216,250
Less: Current portion, term loan facilities	(2,550)	(2,250)
Long term debt	\$ 262,285	\$ 214,000

Note J Derivative instruments and hedging activities

The Credit Facility requires the Company to hedge the interest on fifty percent of the outstanding debt under the Term Loan Facility. The Company purchased the following derivatives on October 31, 2011:

A two-year interest rate cap with a notional amount of \$200 million effective December 31, 2011 through December 31, 2013. The agreement caps the three-month LIBOR rate at 2.5% in exchange for a fixed payment of \$0.3 million. At September 30, 2012 this interest rate cap had a fair value of \$0.001 million and is reflected in other current assets on the consolidated balance sheet. The difference between the fixed payment and its change in mark-to-market value is reflected as a component of interest expense; and

A three-year interest rate swap with a notional amount of \$200 million effective December 31, 2013 through December 31, 2016. The agreement requires the Company to pay interest on the notional amount at the rate of 2.49% in exchange for the three-month LIBOR rate, with a floor of 1.5%. At September 30, 2012, this interest rate swap had a fair value loss of \$3.9 million and is reflected in other non-current liabilities with its change in mark-to-market value reflected as a component of interest expense.

The Company did not elect hedge accounting for the above derivative transactions associated with the Credit Facility and as a result, periodic mark-to-market changes in fair value are reflected in the consolidated statement of operations.

Note K Fair value measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at September 30, 2012 and December 31, 2011 (*in thousands*):

	Fair Value Measurements at September 30, 2012			
	Carrying Value	Level 1	Level 2	Level 3
Assets:				
Interest rate cap	\$ 1	\$	\$ 1	\$
Liabilities:				
Supplemental put obligation	\$ 42,205	\$	\$	\$ 42,205
Call option of noncontrolling shareholder (1)	25			25
Put option of noncontrolling shareholders (2)	50			50
Interest rate swap	3,930		3,930	

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- (1) Represents a noncontrolling shareholder's call option to purchase additional common stock in Tridien.
- (2) Represents put options issued to noncontrolling shareholders in connection with the Liberty acquisition.

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	Fair Value Measurements at December 31, 2011			
	Carrying Value	Level 1	Level 2	Level 3
Assets:				
Interest rate cap	\$ 166	\$	\$ 166	\$
Liabilities:				
Supplemental put obligation	\$ 49,489	\$	\$	\$ 49,489
Call option of noncontrolling shareholder	25			25
Put option of noncontrolling shareholders	50			50
Interest rate swap	1,822		1,822	

A reconciliation of the change in the carrying value of our level 3 supplemental put liability from January 1, 2012 through September 30, 2012 and from January 1, 2011 through September 30, 2011 is as follows (*in thousands*):

	2012	2011
Balance at January 1	\$ 49,489	\$ 44,598
Supplemental put expense (reversal)	(1,540)	3,228
Payment of supplemental put liability	(13,675)	
Balance at March 31	\$ 34,274	\$ 47,826
Supplemental put expense	2,902	1,667
Balance at June 30	\$ 37,176	\$ 49,493
Payment of supplemental put liability		(6,892)
Supplemental put expense	5,029	1,200
Balance at September 30	\$ 42,205	\$ 43,801

Valuation Techniques**Supplemental put:**

The Company and CGM entered into a Supplemental Put Agreement in 2006, which requires the Company to acquire the Allocation Interests owned by CGM upon termination of the Master Services Agreement. Essentially, the put right granted to CGM requires the Company to acquire CGM's Allocation Interests in the Company at a price based on 20% of the company's profits upon clearance of a 7% annualized hurdle rate. Each fiscal quarter the Company estimates the fair value of this potential liability associated with the Supplemental Put Agreement. Any change in the potential liability is accrued currently as a non-cash adjustment to earnings. The change in the supplemental put liability during the nine months ended September 30, 2012, was primarily related to a payment of approximately \$13.7 million to CGM due to the profit allocation payment related to the sale of Staffmark offset by an increase in the estimated fair value of the Fox operating segment.

Options of noncontrolling shareholders:

The call option of the noncontrolling shareholder was determined based on inputs that were not readily available in public markets or able to be derived from information available in publicly quoted markets. As such, the Company categorized the call option of the noncontrolling shareholder as Level 3. The primary inputs associated with this valuation utilizing a Black-Scholes model are volatility of 30%, an estimated term of 5 years and a discount rate of 45%.

The put options of noncontrolling shareholders were determined based on inputs that were not readily available in public markets or able to be derived from information available in publicly quoted markets. As such, the Company categorized the put options of the noncontrolling shareholders as Level 3. The primary inputs associated with this valuation utilizing a Black-Scholes model are volatility of 44%, an estimated term of 5 years and the underlying price equal to the exercise price at the time of issuance.

Interest rate cap asset:

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The Company's derivative instrument at September 30, 2012 consisted of an over-the-counter (OTC) interest rate cap contract which is not traded on a public exchange. The fair value of the Company's interest rate swap contract was determined based on inputs that were readily available in public markets or could be derived from information available in publicly quoted markets. As such, the Company categorized the cap as Level 2. Refer to Note J.

Interest rate swap liability:

The Company's derivative instrument at September 30, 2012 consisted of an over-the-counter (OTC) interest rate swap contract which is not traded on a public exchange. The fair value of the Company's interest rate swap contract was determined based on inputs that were readily available in public markets or could be derived from information available in publicly quoted markets. As such, the Company categorized the swap as Level 2. Refer to Note J.

Table of Contents**Note L Stockholder s equity**

The Trust is authorized to issue 500,000,000 Trust shares and the Company is authorized to issue a corresponding number of LLC interests. The Company will at all times have the identical number of LLC interests outstanding as Trust shares. Each Trust share represents an undivided beneficial interest in the Trust, and each Trust share is entitled to one vote per share on any matter with respect to which members of the Company are entitled to vote.

Distributions:

On January 30, 2012, the Company paid a distribution of \$0.36 per share to holders of record as of January 23, 2012. This distribution was declared on January 5, 2012.

On April 30, 2012, the Company paid a distribution of \$0.36 per share to holders of record as of April 24, 2012. This distribution was declared on April 10, 2012.

On July 31, 2012, the Company paid a distribution of \$0.36 per share to holders of record as of July 24, 2012. This distribution was declared on July 10, 2012.

On October 31, 2012, the Company paid a distribution of \$0.36 per share to holders of record as of October 24, 2012. This distribution was declared on October 9, 2012.

Note M Warranties

The Company s CamelBak, ERGObaby, Fox, Liberty and Tridien operating segments estimate their exposure to warranty claims based on both current and historical product sales data and warranty costs incurred. The Company assesses the adequacy of its recorded warranty liability quarterly and adjusts the amount as necessary. A reconciliation of the change in the carrying value of the Company s warranty liability for the nine months ended September 30, 2012 and the year ended December 31, 2011 is as follows (*in thousands*):

	Nine Months Ended Sept. 30, 2012	Year Ended December 31, 2011
Warranty liability:		
Beginning balance	\$ 4,311	\$ 3,237
Accrual	4,198	3,556
Warranty payments	(2,728)	(2,769)
Other		287
Ending balance	\$ 5,781	\$ 4,311

Note N Noncontrolling interest

Noncontrolling interest represents the portion of the Company s majority-owned subsidiary s net income (loss) and equity that is owned by noncontrolling shareholders. The following tables reflect the Company s ownership percentage of its majority owned operating segments and related noncontrolling interest balances as of September 30, 2012 and December 31, 2011:

% Ownership September 30, 2012	% Ownership December 31, 2011
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	Primary	Fully Diluted	Primary	Fully Diluted
ACI	69.6	69.4	69.6	69.4
American Furniture	99.9	99.9	99.9	99.9
Arnold Magnetics	96.7	87.6	n/a	n/a
CamelBak	89.9	76.7	89.9	76.7
ERGObaby	81.1	74.0	81.1	74.6
FOX	75.7	71.1	78.0	67.9
Liberty	96.2	87.6	96.2	87.6
Tridien	83.2	68.8	73.9	60.0

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(in thousands)	Noncontrolling Interest Balances	
	September 30, 2012	December 31, 2011
ACI	\$ 7,355	\$ 4,475
American Furniture	207	46
Arnold Magnetics	1,594	
CamelBak	11,861	54,729
ERGObaby	10,881	10,233
FOX	11,996	13,661
Liberty	1,663	1,436
Tridien	9,240	10,577
CGM	100	100
	\$ 54,897	\$ 95,257

Recapitalization of Fox

As discussed in Note F, on June 18, 2012, the Company recapitalized its Fox subsidiary. As a result of this recapitalization, the Company's ownership was 75.7% on a primary basis and 71.1% on a fully diluted basis as of September 30, 2012.

Tridien

On August 28, 2012, the Company purchased shares of stock of Anodyne from a group of Tridien's noncontrolling shareholders for an aggregate purchase price of approximately \$1.9 million. As a result of this transaction the Company's ownership interest in Tridien increased to 83.2% on a primary basis and 68.8% on a fully diluted basis.

Note O Income taxes

Each fiscal quarter the Company estimates its annual effective tax rate and applies that rate to its interim pre-tax earnings. In this regard, the Company reflects the full year's estimated tax impact of certain unusual or infrequently occurring items and the effects of changes in tax laws or rates in the interim period in which they occur.

The computation of the annual estimated effective tax rate in each interim period requires certain estimates and significant judgment, including the projected operating income for the year, projections of the proportion of income earned and taxed in other jurisdictions, permanent and temporary differences and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, as additional information is obtained or as the tax environment changes.

The reconciliation between the Federal Statutory Rate and the effective income tax rate for the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
United States Federal Statutory Rate	35.0%	35.0%	35.0%	35.0%
Foreign and State income taxes (net of Federal benefits)	6.7	4.5	9.0	10.3
Expenses of Compass Group Diversified Holdings, LLC representing a pass through to shareholders (1)	15.6	18.0	16.2	39.3
Impact of subsidiary employee stock options	(1.0)	1.7	(2.0)	2.7
Domestic production activities deduction	(2.3)	(6.2)	(2.9)	(11.8)
Non-deductible acquisition costs	(4.5)		3.1	
Impairment expense				21.1
Non-recognition of NOL carryforwards at AFM	4.0		3.5	
Other	(1.4)	(2.8)	(1.4)	(0.6)

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Effective income tax rate	52.1%	50.2%	60.5%	96.0%
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- (1) The effective income tax rate for all periods includes a significant loss at the Company's parent, which is taxed as a partnership.

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Note P Defined Benefit Plan

In connection with the acquisition of Arnold, the Company has a defined benefit plan covering substantially all of Arnold's employees at its Lupfig, Switzerland location. The benefits are based on years of service and the employees' highest average compensation during the specific period.

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheets at September 30, 2012.

	Date of acquisition through September 30, 2012
Change in benefit obligation:	
Benefit obligation, acquisition date	\$ 15,662
Service cost	269
Interest cost	193
Actuarial loss	
Employee contributions and transfer	232
Benefits paid	(156)
Foreign currency translation	(513)
Retirees	(1,117)
Benefit obligation	14,570
Change in plan assets:	
Fair value of assets, acquisition date	\$ 14,325
Actual return on plan assets	(41)
Company contribution	278
Employee contributions and transfer	232
Benefits paid	(156)
Foreign currency translation	(469)
Retirees	(1,117)
Fair value of assets	13,052
Funded Status	\$ (1,518)

The unfunded liability of \$1.5 million is recognized in the consolidated balance sheet within other non-current liabilities at September 30, 2012. Net periodic benefit cost consists of the following at September 30, 2012:

	Date of acquisition through September 30, 2012
Service cost	\$ 269
Interest cost	193
Expected return on plan assets	(23)
Net periodic benefit cost	\$ 439

Assumptions used to determine the benefit obligations and components of the net periodic benefit cost at September 30, 2012:

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	September 30, 2012
Discount rate	2.25%
Expected return on plan assets	2.50%
Rate of compensation increase	1.00%

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The Company considers the historical level of long-term returns and the current level of expected long-term returns for the plan assets, as well as the current and expected allocation of assets when developing its expected long-term rate of return on assets assumption. The assumptions used for the plan are based upon customary rates and practices for the location of the Company.

The Company, for the remainder of 2012, will be contributing per the terms of the agreement, and the expected contribution to the plan will be approximately \$0.3 million.

The following presents the benefit payments which are expected to be paid for the plan:

Oct. 1, 2012 through Sept. 30, 2013	\$ 569
Oct. 1, 2013 through Sept. 30, 2014	1,015
Oct. 1, 2014 through Sept. 30, 2015	1,185
Oct. 1, 2015 through Sept. 30, 2016	596
Oct. 1, 2016 through Sept. 30, 2017	640
Oct. 1, 2017 and thereafter	4,731

Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and providing adequate liquidity to meet immediate and future benefit payment requirements.

The assets of the plan are reinsured in their entirety with Swiss Life Ltd. (Swiss Life) within the framework of the corresponding contracts with Swiss Life Collective BVG Foundation and Swiss Life Complementary Foundation. The assets are guaranteed by the insurance company and pooled with the assets of other participating employers. The breakdown of the allocation of assets in Swiss Life 's group life portfolio is as follows at the date of acquisition:

	Acquisition Date Allocation
Certificates of deposit and cash and cash equivalents	78%
Fixed income bonds and securities	7%
Mutual funds	1%
Private equity and hedge funds	1%
Real estate	11%
Equity and other investments	2%
	100%

The plan assets are pooled with assets of other participating employers and are not separable; therefore the fair values of the pension plan assets at September 30, 2012 were considered Level 3.

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

*This item 2 contains forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of risks and uncertainties, some of which are beyond our control. Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ, including those discussed in the sections entitled **Forward-Looking Statements** and **Risk Factors** included elsewhere in this Quarterly Report as well as those risk factors discussed in the section entitled **Risk Factors** in our Annual Report on Form 10-K and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, as filed with the SEC on May 9, 2012.*

Overview

Compass Diversified Holdings, a Delaware statutory trust, was formed in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability company, was also formed on November 18, 2005. In accordance with the Trust Agreement, the Trust is sole owner of 100% of the Trust Interests (as defined in the LLC Agreement) of the Company and, pursuant to the LLC Agreement, the Company has outstanding, the identical number of Trust Interests as the number of outstanding shares of the Trust. The Manager is the sole owner of the Allocation Interests of the Company. The Company is the operating entity with a board of directors and other corporate governance responsibilities, similar to that of a Delaware corporation.

The Trust and the Company were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. We characterize small to middle market businesses as those that generate annual cash flows of up to \$60 million. We focus on companies of this size because of our belief that these companies are often more able to achieve growth rates above those of their relevant industries and are also frequently more susceptible to efforts to improve earnings and cash flow.

In pursuing new acquisitions, we seek businesses with the following characteristics:

North American base of operations;

stable and growing earnings and cash flow;

significant market share in defensible industry niche (i.e., has a reason to exist);

solid and proven management team with meaningful incentives;

low technological and/or product obsolescence risk; and

a diversified customer and supplier base.

Our management team's strategy for our subsidiaries involves:

utilizing structured incentive compensation programs tailored to each business to attract, recruit and retain talented managers to operate our businesses;

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regularly monitoring financial and operational performance, instilling consistent financial discipline and supporting management in the development and implementation of information systems to effectively achieve these goals;

assisting management in their analysis and pursuit of prudent organic cash flow growth strategies (both revenue and cost related);

identifying and working with management to execute attractive external growth and acquisition opportunities; and

forming strong subsidiary level boards of directors to supplement management in their development and implementation of strategic goals and objectives.

Based on the experience of our management team and its ability to identify and negotiate acquisitions, we believe we are positioned to acquire additional attractive businesses. Our management team has a large network of approximately 2,000 deal intermediaries to whom it actively markets and whom we expect to expose us to potential acquisitions. Through this

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network, as well as our management team's active proprietary transaction sourcing efforts, we typically have a substantial pipeline of potential acquisition targets. In consummating transactions, our management team has, in the past, been able to successfully navigate complex situations surrounding acquisitions, including corporate spin-offs, transitions of family-owned businesses, management buy-outs and reorganizations. We believe the flexibility, creativity, experience and expertise of our management team in structuring transactions provides us with a strategic advantage by allowing us to consider non-traditional and complex transactions tailored to fit a specific acquisition target.

In addition, because we intend to fund acquisitions through the utilization of our Revolving Credit Facility, we do not expect to be subject to delays in or conditions by closing acquisitions that would be typically associated with transaction specific financing, as is typically the case in such acquisitions. We believe this advantage is a powerful one and is highly unusual in the marketplace for acquisitions in which we operate.

2012 Nine-months Highlights

Acquisition of Arnold Magnetics

On March 5, 2012, we purchased a 96.6% controlling interest (on a primary and fully diluted basis) in Arnold Magnetics, with headquarters in Rochester, NY. Arnold Magnetics has an operating history of more than 100 years and is a leading global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets, including energy, medical, aerospace and defense, consumer electronics, general industrial and automotive. From its nine manufacturing facilities located in the United States, the United Kingdom, Switzerland and China, Arnold produces high performance permanent magnets, flexible magnets and precision foil products that are mission critical in motors, generators, sensors and other systems and components. Based on its long-term relationships, Arnold Magnetics has built a diverse and blue-chip customer base totaling more than 2,000 clients worldwide.

The purchase price, including proceeds from non-controlling interests, was approximately \$130.5 million (excluding acquisition-related costs) and was based on a total enterprise value of \$124.2 million and included approximately \$6.3 million in cash and working capital. Acquisition related costs were approximately \$4.8 million. We funded the acquisition through available cash on hand and a draw of \$25 million on our Revolving Credit Facility. Arnold's management and certain other investors invested in the transaction alongside us, collectively representing approximately 3.4% in initial non-controlling interest on a primary and fully diluted basis. CGM acted as an advisor to the Company in the transaction and received fees and expense payments totaling approximately \$1.2 million.

Preferred Stock Redemption

On March 6, 2012, we redeemed CamelBak's 11% convertible preferred stock for \$45.3 million plus accrued dividends of \$2.7 million, from an affiliate of CGI Magyar Holdings LLC, CODI's largest shareholder. The redemption was funded with available cash on hand.

Debt Re-pricing

On April 2, 2012, we exercised our option for an incremental term loan in the amount of \$30 million. The incremental term loan was issued at 99% of par value and increased the term loans outstanding under the Credit Facility from approximately \$224.4 million to approximately \$254.4 million. In addition, in connection with the option we reduced the margin on Term Loan Facility LIBOR Loans from 6.00% to 5.00%, Base Rate Loans from 5.00% to 4.00% and reduced the LIBOR floor from 1.50% to 1.25%. We paid an amendment fee of approximately \$2.2 million, and incurred additional fees and expenses of approximately \$0.6 million. Net proceeds from this incremental term loan were used to reduce outstanding loans on the Revolving Credit Facility.

Sale of HALO

On May 1, 2012, we sold all of the issued and outstanding capital stock of HALO to Candlelight Investment Holdings, Inc. The total enterprise value received for HALO was \$76.5 million.

At the closing, we received approximately \$66.5 million in cash in respect of our debt and equity interests in HALO and for the payment of accrued interest and fees after payments to non-controlling shareholders and payment of all transaction expenses. The net proceeds were used to repay outstanding debt under our Revolving Credit Facility. Our proceeds from the disposition approximate our carrying value of HALO. We recorded a loss on the sale of HALO of \$0.5 million.

The transaction is subject to typical escrow requirements and adjustments for certain changes in the working capital of HALO. The HALO purchase agreement contains customary representations, warranties, covenants and indemnification provisions.

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Outlook

Net sales during the nine months ended September 30, 2012 increased at five of our eight businesses when compared to the same period of 2011. The preliminary estimate of U.S. gross domestic product (GDP), a measure of the total production of goods and services in the United States, increased during the third quarter of 2012 at the seasonally adjusted annualized rate of 2.0%, compared to 1.3% in the second quarter of 2012. The increased rate of growth is an indication that government and consumer spending is marginally increasing. Each of our businesses are impacted by the overall economic environment including both consumer spending and increasing commodity and fuel costs. Additionally, American Furniture Manufacturing Inc. (AFM or American Furniture) is also significantly affected by continued tight consumer credit markets and the depressed housing market which is evident in the decrease in quarter over quarter sales in the third quarter of 2012.

We are dependent on the earnings of, and cash receipts from, the businesses that we own to meet our corporate overhead and management fee expenses and to pay distributions. These earnings and distributions, net of any minority interests in these businesses, will be available:

First, to meet capital expenditure requirements, management fees and corporate overhead expenses;

Second, to fund distributions from the businesses to the Company; and

Third, to be distributed by the Trust to shareholders.

Results of Operations

We were formed on November 18, 2005 and acquired our existing businesses (segments) as follows:

May 16, 2006	August 1, 2006	August 31, 2007	January 4, 2008	March 31, 2010
Advanced Circuits	Tridien	American Furniture	Fox	Liberty Safe

September 16, 2010

ERGObaby

August 24, 2011

CamelBak

March 5, 2012

Arnold Magnetics

In the following results of operations, we provide: (i) actual consolidated results of operations for the three and nine months ended September 30, 2012 and 2011, which includes the historical results of operations of our businesses (operating segments) from the date of acquisition and recasts prior period reporting for business sold during the periods presented (Staffmark and Halo) and: (ii) comparative results of operations for each of our businesses on a stand-alone basis for the three and nine-months ended September 30, 2012 and 2011 which include relevant pro-forma adjustments to historical results of operations and explanations, where appropriate, for the 2012 acquisition and 2011 acquisition.

Consolidated Results of Operations Compass Diversified Holdings and Compass Group Diversified Holdings LLC

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
(in thousands)				
Net sales	\$ 241,228	\$ 168,667	\$ 666,571	\$ 446,451
Cost of sales	164,281	117,837	455,036	311,168

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Gross profit	76,947	50,830	211,535	135,283
Staffing, selling, general and administrative expense	39,422	30,395	119,756	77,347
Fees to manager	4,429	4,792	13,294	11,707
Supplemental put expense	5,029	1,200	6,391	6,095
Amortization of intangibles	7,699	5,509	22,639	14,943
Impairment expense				7,700
Income (loss) from operations	\$ 20,368	\$ 8,934	\$ 49,455	\$ 17,491

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Net sales

On a consolidated basis, net sales increased \$72.6 million and \$220.1 million during the three and nine month periods ended September 30, 2012, respectively, compared to the same periods in 2011. These increases for both the three and nine month periods are due principally to increased revenues (and in the case of Arnold Magnetics and CamelBak, incremental revenues) at each of our operating segments with the exception of American Furniture and Tridien and for the quarter only, CamelBak. We realized revenues totaling approximately \$68.6 million and \$196.9 million in the three and nine months ended September 30, 2012 at Arnold Magnetics and CamelBak, which we acquired in March 2012 and August 2011, respectively. Refer to Results of Operations Our Businesses for a more detailed analysis of net sales for each business segment.

We do not generate any revenues apart from those generated by the businesses we own. We may generate interest income on the investment of available funds, but expect such earnings to be minimal. Our investment in our businesses is typically in the form of loans from the Company to such businesses, as well as equity interests in those businesses. Cash flows coming to the Trust and the Company are the result of interest payments on those loans, amortization of those loans and, in some cases, dividends on our equity ownership. However, on a consolidated basis these items will be eliminated.

Cost of sales

On a consolidated basis, cost of sales increased approximately \$46.4 million and \$143.9 million during the three and nine month periods ended September 30, 2012, respectively, compared to the same periods in 2011. These increases are due almost entirely to the corresponding increase in net sales. Gross profit as a percentage of net sales totaled approximately 31.9% and 30.1% of net sales for the three month periods ended September 30, 2012 and 2011, respectively. Gross profit as a percentage of net sales totaled approximately 31.7% and 30.3% of net sales for the nine month periods ended September 30, 2012 and 2011, respectively. The increase in gross profit percentage for both the three and nine months ended September 30, 2012 compared to the same periods in 2011 is principally attributable to the inclusion of CamelBak results of operations in both periods of 2012, compared to just thirty-six days in 2011. CamelBak's profit margin during the nine months ended September 30, 2012 was approximately 46.0%. Refer to Results of Operations Our Businesses for a more detailed analysis of cost of sales for each business segment.

Selling, general and administrative expense

On a consolidated basis, selling, general and administrative expense increased approximately \$9.1 million and \$42.4 million in the three and nine month periods ended September 30, 2012, respectively, compared to the same periods in 2011. The majority of these increases are due principally to increases in costs directly tied to sales, such as commissions and direct customer support services, and selling, general and administrative costs at Arnold Magnetics and CamelBak during 2012. Refer to Results of Operations Our Businesses, for a more detailed analysis of selling, general and administrative expense by segment.

Fees to manager

Pursuant to the Management Services Agreement, we pay CGM a quarterly management fee equal to 0.5% (2.0% annually) of our consolidated adjusted net assets. We accrue for the management fee on a quarterly basis. For the three months ended September 30, 2012 and 2011, we incurred approximately \$4.4 million and \$4.8 million, respectively, in expense for these fees. For the nine months ended September 30, 2012 and 2011 we incurred approximately \$13.3 million and \$11.7 million, respectively, in expense for these fees. The increase in management fees for the nine months ended September 30, 2012 compared to the same period in 2011 is due to management fees recast as a component of discontinued operations in the 2011 periods resulting from the sale of Staffmark and HALO. The remaining change is due to the increase in consolidated adjusted net assets as of September 30, 2012 in connection with the CamelBak acquisition in August 2011 and the Arnold Magnetics acquisition in March 2012, offset in part by the decrease in consolidated adjusted net assets in connection with the sales of Staffmark and HALO.

Supplemental put expense

Concurrent with the IPO, we entered into a Supplemental Put Agreement with our Manager pursuant to which our Manager has the right to cause us to purchase the Allocation Interests then owned by it upon termination of the Management Services Agreement. We accrue for the supplemental put expense on a quarterly basis. For the three and nine months ended September 30, 2012, we incurred approximately \$5.0 million and \$6.4 million, respectively, in expense compared to \$1.2 million and \$6.1 million for the corresponding periods in 2011. The change in supplemental put expense in all periods presented is attributable to the increase or decrease in the estimated fair value of our businesses during each of those periods.

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Impairment expense

We incurred an impairment charge in the first quarter of 2011 totaling \$7.7 million, which is reflected in the operating results for the nine months ended September 30, 2011, at our American Furniture business segment, based on our annual goodwill impairment analysis. The portion of the impairment charge that was attributable to impaired goodwill at American Furniture was \$5.9 million. The remaining \$1.8 million charge reflected a write down of the unamortized balance of American Furniture's intangible asset, its trade name. The write downs were necessary based on the further deterioration of the promotional furniture market. As of September 30, 2012, the balance of goodwill carried at American Furniture is zero.

We completed our annual impairment analysis of goodwill as of March 31, 2012 and there was no indication of goodwill impairment at any of our reporting units.

Results of Operations Our Businesses

The following discussion reflects a comparison of the historical, and where appropriate, pro-forma results of operations for each of our businesses for the three and nine month periods ending September 30, 2012 and September 30, 2011, which we believe is the most meaningful comparison in explaining the comparative financial performance of each of our businesses. The following results of operations are not necessarily indicative of the results to be expected for the full year going forward.

Advanced Circuits

Overview

Advanced Circuits is a provider of prototype, quick-turn and volume production printed circuit boards (PCBs) to customers throughout the United States. Collectively, prototype and quick-turn PCBs represent approximately 60% of Advanced Circuits' gross revenues. Prototype and quick-turn PCBs typically command higher margins than volume production PCBs given that customers require high levels of responsiveness, technical support and timely delivery of prototype and quick-turn PCBs and are willing to pay a premium for them. Advanced Circuits is able to meet its customers' demands by manufacturing custom PCBs in as little as 24 hours, while maintaining over 98.0% error-free production rates and real-time customer service and product tracking 24 hours per day.

While global demand for PCBs has remained strong in recent years, industry wide domestic production has declined over 50% since 2000. In contrast, Advanced Circuits' revenues increased steadily through 2008 (2009 saw a slight reduction) and increased again in 2011 and into the first and second quarter of 2012 as its customers' prototype and quick-turn PCB requirements, such as small quantity orders and rapid turnaround, are less able to be met by low cost volume manufacturers in Asia and elsewhere. Advanced Circuits' management anticipates that demand for its prototype and quick-turn printed circuit boards will remain strong and anticipates that demand will be impacted less by current economic conditions than by its longer lead time production business, which is driven more by consumer purchasing patterns and capital investments by businesses.

We purchased a controlling interest in Advanced Circuits on May 16, 2006.

On March 11, 2010, Advanced Circuits acquired Circuit Express based in Tempe, Arizona for approximately \$16.1 million. Circuit Express focuses on quick-turn manufacturing of prototype and low-volume quantities of rigid PCBs primarily for aerospace and defense related customers. On May 23, 2012 Advanced Circuits acquired the assets of Universal Circuits (UCI) for approximately \$2.8 million. Universal Circuits supplies PCBs to major military, aerospace, and medical original equipment manufacturers and contract manufacturers. UCI's Minnesota facility meets certain Department of Defense clearance requirements and is noted for custom and advanced technologies. Universal Circuits sales are primarily in the long-lead sector. For the three and nine-months ended September 30, 2012 the consolidated results of operations of Advanced Circuits includes net sales of Universal Circuits aggregating \$3.5 million and \$4.9 million, respectively, and gross profit of Universal Circuits aggregating \$.08 million and \$1.1 million, respectively. The following Results of Operations does not include any operating results from these two acquisitions prior to their respective date of acquisition.

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The table below summarizes the income from operations data for Advanced Circuits for the three and nine month periods ended September 30, 2012 and September 30, 2011.

(in thousands)	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 22,229	\$ 19,592	\$ 62,878	\$ 59,905
Cost of sales	11,540	8,934	31,272	26,776
Gross profit	10,689	10,658	31,606	33,129
Selling, general and administrative expense	3,522	3,167	10,595	9,988
Fees to manager	125	125	375	375
Amortization of intangibles	769	757	2,287	2,270
Income from operations	\$ 6,273	\$ 6,609	\$ 18,349	\$ 20,496

Three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Net sales

Net sales for the three months ended September 30, 2012 increased approximately \$2.6 million or 13.5%, over the corresponding three month period ended September 30, 2011. The increase in net sales is the result of an increase in gross sales of prototype PCBs (\$0.2 million), long-lead PCBs (\$2.6 million) and assembly revenue (\$0.4 million) during the three months ended September 30, 2012 compared to the same period of 2011, offset in part by a decrease in sales of quick-turn production PCBs (\$0.2 million) and an increase in promotion and discount charges (\$0.3 million). The increase in sales of long-lead PCBs is largely due to sales during the third quarter of 2012 attributable to Universal Circuits.

Sales from quick-turn and prototype PCBs represented approximately 56% of net sales during the three months ended September 30, 2012 compared to approximately 64% during 2011. The decrease in proportion of quick-turn and prototype PCB sales to total sales is a function of the addition of Universal Circuit s 2012 long-lead sales.

Cost of sales

Cost of sales for the three months ended September 30, 2012 increased approximately \$2.6 million from the comparable period in 2011 principally resulting from the increase in sales. Gross profit as a percentage of sales decreased during the three months ended September 30, 2012 (48.1% at September 30, 2012, compared to 54.4% at September 30, 2011). This decrease in margin is the result of: (i) the increase in promotional pricing, principally related to long-lead PCB sales during the three months ended September 30, 2012 and (ii) sales attributable to Universal Circuits, and a larger proportion of assembly sales during the three months ended September 30, 2012, each of which carry lower margins.

Selling, general and administrative expense

Selling, general and administrative expense increased approximately \$0.4 million during the three months ended September 30, 2012 compared to the same period in 2011 due to acquisition related costs in connection with the acquisition of Universal Circuits totaling approximately \$0.4 million.

Income from operations

Operating income for the three months ended September 30, 2012 was approximately \$6.3 million compared to \$6.6 million earned in the same period in 2011, a decrease of approximately \$0.3 million, principally as a result of those factors described above.

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Nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Net sales

Net sales for the nine months ended September 30, 2012 increased approximately \$3.0 million or 5.0%, over the corresponding nine month period ended September 30, 2011. The increase in net sales is a result of an increase in gross sales of prototype and quick-turn production PCBs (\$2.0 million), long-lead PCBs (\$1.2 million) and assembly revenue (\$1.9 million) during the nine months ended September 30, 2012 compared to the same period of 2011, offset in part by an increase in promotion and discount charges (\$1.9 million). The increase in sales in the quick turn sector during 2012 compared to 2011 is due in part to quick-turn sales attributable to Universal Circuits. The increase in promotion and discount charges in 2012

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compared to the same period of 2011 are principally the result of discounting and price promotions incurred during 2012 in response to competitor's pricing in the long-lead sector. The increase in sales of long-lead PCBs are largely due to sales during the second and third quarters of 2012 attributable to Universal Circuits.

Sales of quick-turn and prototype PCBs represented approximately 61.5% of net sales during the nine months ended September 30, 2012 compared to 63.2% in 2011.

Cost of sales

Cost of sales for the nine months ended September 30, 2012 increased approximately \$4.5 million from the comparable period in 2011 due principally to the increase in sales. Gross profit as a percentage of sales decreased during the nine months ended September 30, 2012 (50.3% at September 30, 2012 compared to 55.3% at September 30, 2011). This decrease in margin is the result of: (i) the promotional pricing in long-lead PCB sales during the nine months ended September 30, 2012 noted above and (ii) sales attributable to Universal Circuits, and a larger proportion of assembly sales during the nine months ended September 30, 2012, each which carry lower margins

Selling, general and administrative expense

Selling, general and administrative expense increased approximately \$0.6 million during the nine months ended September 30, 2012 compared to the same period in 2011 due principally to acquisition related costs in connection with the acquisition of Universal Circuits of approximately \$0.4 million.

Income from operations

Operating income for the nine months ended September 30, 2012 was approximately \$18.3 million compared to \$20.5 million earned in the same period in 2011, a decrease of approximately \$2.1 million, principally as a result of those factors described above.

American Furniture

Overview

Founded in 1998 and headquartered in Ecru, Mississippi, American Furniture is a leading U.S. manufacturer of upholstered furniture, focused exclusively on the promotional segment of the furniture industry. American Furniture offers a broad product line of stationary and motion furniture, including sofas, loveseats, sectionals, recliners and complementary products, sold primarily at retail price points ranging between \$199 and \$1,399. American Furniture is a low-cost manufacturer and is able to ship most products in its line to its customers within 48 hours of receiving an order.

American Furniture implemented a revised standard costing system in the year 2011 which required American Furniture to reclassify certain costs between cost of sales and selling, general and administrative expenses. The change in format consisted of reclassifying the trucking fleet expenses from selling, general and administrative expenses into cost of sales as well as re-classifying certain manufacturing related expenses including rent, insurance, utilities and workers' compensation from selling, general and administrative costs to cost of sales. Management believes that the format of reporting cost of sales going forward together with the revised standard costing system and the revaluation of standard costs will allow management to timely react to changes in supply costs, product demand and overall price structure which in turn should eliminate the accumulation of lower margin product, allow for more advantageous product procurement and allow for proper utilization of available assets. The reclassification from selling, general and administrative expense to cost of sales during the three and nine months ended September 30, 2011 was \$1.5 million and \$4.6 million, respectively.

American Furniture's products are adapted from established designs in the following categories: (i) motion and recliner; (ii) stationary; (iii) occasional chair; and, (iv) accent tables and rugs. American Furniture's products are manufactured from common components and offer proven select fabric options, providing manufacturing efficiency and resulting in limited design risk or inventory obsolescence.

Table of Contents***Results of Operations***

The table below summarizes the loss from operations data for American Furniture for the three and nine month periods ended September 30, 2012 and September 30, 2011.

(in thousands)	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 20,728	\$ 23,695	\$ 72,359	\$ 83,112
Cost of sales	19,534	23,463	67,548	78,210
Gross profit	1,194	232	4,811	4,902
Selling, general and administrative expense	1,762	2,196	5,804	7,545
Fees to manager				125
Amortization of intangibles	13	546	39	1,637
Impairment expense				7,700
Loss from operations	\$ (581)	\$ (2,510)	\$ (1,032)	\$ (12,105)

Three months ended September 30, 2012 compared to the three months ended September 30, 2011.**Net sales**

Net sales for the three months ended September 30, 2012 decreased approximately \$3.0 million, or 12.5% over the corresponding three months ended September 30, 2011. During the three month period ending September 30, 2012, stationary product gross sales and motion product sales decreased approximately \$3.1 million and \$0.5 million, respectively, while recliner sales increased approximately \$1.0 million. Sales of other products and a reduction in fuel surcharges were responsible for the remaining decrease in net sales during the three months ended September 30, 2012 compared to 2011. The decrease in gross sales in the stationary and motion product categories and other products is principally the result of a soft current retail environment and increased competition in pricing in our promotional furniture category during the three months ended September 30, 2012. The increase in recliner product sales is the result of supplying product to one of our largest customers for their recliner promotion event. We expect that sales for the remainder of the fiscal year will continue to be challenged by the current retail environment.

Cost of sales

Cost of sales decreased approximately \$3.9 million in the three months ended September 30, 2012 compared to the same period of 2011 and is due primarily to the corresponding decrease in sales. Gross profit as a percentage of sales was 5.8% in the three months ended September 30, 2012 compared to 1.0% in the same period of 2011. The increase in gross profit as a percentage of sales of approximately 4.8% during the three months ended September 30, 2012 is principally attributable to a \$1.2 million write off taken in 2011 to adjust overhead absorption in inventory resulting from adjustments to its standard costs in July 2011.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2012 decreased approximately \$0.4 million compared to the same period of 2011. This decrease is primarily due to decreased costs of advertising and marketing (\$0.2 million) and administrative salaries and benefits (\$0.2 million) during the three months ended September 30, 2012 compared to the same period of 2011.

Loss from operations

Loss from operations totaled approximately \$0.6 million for the three months ended September 30, 2012 compared to a loss from operations of approximately \$2.5 million in the three months ended September 30, 2011, principally due to those factors described above.

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Nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Net sales

Net sales for the nine months ended September 30, 2012 decreased approximately \$10.8 million, or 12.9%, over the corresponding nine months ended September 30, 2011. During the nine month period ending September 30, 2012, stationary product gross sales and motion product sales decreased approximately \$10.0 million, and \$1.2 million, respectively, while recliner sales increased approximately \$1.1 million. Sales of other products and a reduction in fuel surcharges were responsible for the remaining decrease in net sales during the nine months ended September 30, 2012 compared to 2011. The decrease in gross sales in the stationary and motion product categories and other products is principally the result of a soft current retail environment and increased competition in pricing in our promotional furniture category during the nine months ended September 30, 2012 and to a lesser extent our inability to ship certain products during the first quarter 2012 due to a delay in receiving fabric kits that we outsourced to China. The increase in recliner product sales is the result of supplying product to one of our largest customers for their recliner promotion event. We expect that sales for the remainder of the fiscal year will continue to be challenged by the current retail environment.

Cost of sales

Cost of sales decreased approximately \$10.7 million in the nine months ended September 30, 2012 compared to the same period of 2011 and is due primarily to the corresponding decrease in sales. Gross profit as a percentage of sales was 6.6% in the nine months ended September 30, 2012 compared to 5.9% in 2011. The increase in gross profit as a percentage of sales of approximately 0.7% during the nine months ended September 30, 2012 is principally attributable to a \$1.2 million write off taken in 2011 to adjust overhead absorption in inventory resulting from adjustments to its standard costs in July 2011.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2012, decreased approximately \$1.7 million compared to the same period of 2011. This decrease is primarily due to decreased costs of advertising and marketing (\$0.4 million) and administrative salaries and benefits (\$1.1 million) during the nine months ended September 30, 2012 compared to the same period of 2011.

Impairment expense

American Furniture incurred an impairment charge to its goodwill (\$5.9 million) and unamortized trade name (\$1.8 million), aggregating \$7.7 million, during the nine months ended September 30, 2011. This impairment charge eliminated the remaining balance of goodwill. The \$1.8 million impairment charge to American Furniture's trade name is in addition to \$3.3 million in impairment charges to its trade name expensed in 2010. The impairment charges resulted from the annual analysis of goodwill and were necessary based on the deterioration of the promotional furniture market in 2011. There were no impairment charges for American Furniture during the comparable 2012 period and only \$0.5 million in intangible assets are currently on its balance sheet.

Loss from operations

Loss from operations totaled approximately \$1.0 million for the nine months ended September 30, 2012 compared to a loss from operations of approximately \$12.1 million in the nine months ended September 30, 2011, principally due the factors described above, particularly the impairment charge in 2011.

Arnold Magnetics

Overview

Founded in 1895 and headquartered in Rochester, New York, Arnold Magnetics is a manufacturer of engineered, application specific permanent magnets. Arnold Magnetics products are used in applications such as general industrial, reprographic systems, aerospace and defense, advertising and promotional, consumer and appliance, energy, automotive and medical technology. Arnold Magnetics is the largest U.S. manufacturer of engineered magnets as well as only one of two domestic producers to design, engineer and manufacture rare earth magnetic solutions. Arnold operates a 70,000 sq. ft. manufacturing assembly and distribution facility in Rochester, New York with nine additional facilities worldwide, in countries including the United Kingdom, Switzerland and China. Arnold serves customers via three primary product sectors:

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Permanent Magnet and Assemblies and Reprographics (PMAG) (approximately 70% of sales) High performance magnets for precision motor/generator sensors as well as beam focusing applications and reprographic applications;

Flexmag (approximately 20% of net sales) Flexible bonded magnets for advertising, consumer and industrial applications; and

Rolled Products (approximately 10% of net sales) Ultra thin metal foil products utilizing magnetic and non- magnetic alloys.

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Arnold Magnetics is also a 50% partner in a China rare earth mine-to-magnet joint venture. Arnold Magnetics accounts for its activity in the joint venture utilizing the equity method of accounting. Gains and losses from the joint venture are not material during the three and nine months ended September 30, 2012.

On March 5, 2012, we made loans to and purchased a controlling interest in Arnold Magnetics for approximately \$131 million, representing approximately 96.6% of the equity in Arnold Magnetics.

Pro-forma Results of Operations

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2012	2011	2012	2011
(in thousands)	(Pro-forma)	(Pro-forma)	(Pro-forma)	(Pro-forma)
Net sales	\$ 31,951	\$ 35,873	\$ 99,036	\$ 102,750
Cost of sales (a)	25,060	28,624	76,463	80,753
Gross profit	6,891	7,249	22,573	21,997
Selling, general and administrative expense (b)	3,740	3,925	12,070	11,869
Fees to manager (c)	125	125	375	375
Amortization of intangibles (d)	874	875	2,642	2,572
Income from operations	\$ 2,152	\$ 2,324	\$ 7,486	\$ 7,182

Pro-forma results of operations of Arnold Magnetics for the three and nine months ended September 30, 2012 and 2011 include the following pro-forma adjustments, applied to historical results as if we acquired Arnold Magnetics on January 1, 2011:

- (a) Cost of sales for the nine months ended September 30, 2011 does not include \$1.6 million of amortization expense associated with the inventory fair value step-up as a result of and derived from the purchase price allocation in connection with our purchase.
- (b) Selling, general and administrative costs were reduced by approximately \$0.1 million and \$12.4 million in the three and nine-months ended September 30, 2012, respectively, representing adjustments for one-time transaction costs incurred as a result of our purchase.
- (c) Represents management fees that would have been payable to the Manager in each period presented.
- (d) Represents an increase in amortization of intangible assets totaling \$0.7 million in the three month period ended September 30, 2011 and \$0.6 million and \$2.0 million in the nine months ended September 30, 2012 and 2011, respectively. These adjustments are the result of and were derived from the purchase price allocation in connection with our acquisition.

Pro forma three months ended September 30, 2012 compared to the pro forma three months ended September 30, 2011.

Net sales

Net sales for the three months ended September 30, 2012 were approximately \$32.0 million, a decrease of \$3.9 million, or 10.9%, compared to the same period in 2011. The decrease in net sales is a result of decreased sales in the PMAG (\$3.3 million), Flexmag (\$0.1 million) and Rolled product (\$0.5 million) sectors. PMAG sales represented approximately 72.7% of net sales for the three months ended September 30, 2012 compared to 74.1% for the same period in 2011. The decrease in sales is principally attributable to a decrease in reprographic application sales, a component of PMAG, during the three-months ended September 30, 2012 compared to the same period in 2011.

International sales were \$13.9 million during the three months ended September 30, 2012 compared to \$17.1 million during the same period in 2011, a decrease of \$3.3 million or 19%.

Cost of sales

Cost of sales for the three months ended September 30, 2012 were approximately \$25.1 million compared to approximately \$28.6 million in the same period of 2011. The decrease of \$3.6 million is due principally to the corresponding decrease in sales. Gross profit as a percentage of sales

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increased from 20.2% for the quarter ended September 30, 2011 to 21.6% in the quarter ended September 30, 2012. The increase is attributable to increased margins in the PMAG sector due to a more favorable customer/product sales mix, due in part to the decrease in reprographic application sales during the three months ended September 30, 2012 compared to the same period in 2011.

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Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2012 was approximately \$3.7 million or 11.7% of net sales compared to \$3.9 million or 10.9% of net sales during the same period in 2011.

Income from operations

Income from operations was approximately \$2.2 million during the three months ended September 30, 2012 compared to \$2.3 million in the three months ended September 30, 2011.

Pro forma nine months ended September 30, 2012 compared to the pro forma nine months ended September 30, 2011.

Net sales

Net sales for the nine months ended September 30, 2012 were approximately \$99.0 million, a decrease of \$3.7 million, or 3.6%, compared to the same period in 2011. The decrease in net sales is a result of decreased sales in the PMAG product sector (\$2.5 million) and decreases in sales in the Flexmag (\$0.2 million) and Rolled Products (\$1.0 million) sectors. PMAG sales represented approximately 73.0% of net sales for the nine months ended September 30, 2012 compared to 72.8% for the same period in 2011. The decrease in PMAG sales during the nine months ended September 30, 2012 compared to the same period in 2011 is principally attributable to lower reprographic application sales, a component of PMAG.

International sales were \$44.0 million during the nine months ended September 30, 2012 compared to \$47.0 million during the same period in 2011, a decrease of \$3.0 million or 6%.

Cost of sales

Cost of sales for the nine months ended September 30, 2012 were approximately \$76.5 million compared to approximately \$80.8 million in the same period of 2011. The decrease of \$4.3 million is due principally to the corresponding decrease in sales. Gross profit as a percentage of sales increased from 21.4% for the nine months ended September 30, 2011 to 22.8% in the nine months ended September 30, 2012. The increase is attributable to increased margins in the PMAG sector due to a more favorable customer/product sales mix, due in part to a decrease in reprographic application sales during the nine months ended September 30, 2012 compared to the same period in 2011, offset in part by a decrease in margins at its Rolled Product sector due to an unfavorable customer/product sales mix.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2012 increased to approximately \$12.1 million or 12.2% of net sales compared to \$11.9 million or 11.6% of net sales for the same period in 2011. The \$0.2 million increase in selling, general and administrative expenses incurred during the nine months ended September 30, 2012 compared to the same period in 2011 is attributable to initial increases in personnel costs and benefits and third party services to support growth initiatives.

Income from operations

Income from operations for the nine months ended September 30, 2012 was approximately \$7.5 million, an increase of \$0.3 million when compared to the same period in 2011, based on the factors described above.

CamelBak

Overview

CamelBak, headquartered in Petaluma, California, is a premier designer and manufacturer of personal hydration products for outdoor, recreation and military applications. CamelBak offers a broad range of recreational and military personal hydration systems (Hydration Systems), reusable water bottles (Bottles), specialty military gloves (Gloves) and performance accessories (Accessories).

As the leading supplier of hydration products to specialty outdoor, cycling and military retailers, CamelBak maintains the leading market share position in recreational markets for hands-free hydration packs and the leading market share position for reusable water bottles in specialty

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channels. CamelBak is also the dominant supplier of hydration systems to the military, with a leading market share in post-issue hydration systems. Over its more than 20-year history, CamelBak has developed a reputation as the preferred supplier for the hydration needs of the most demanding athletes and soldiers. Across its markets, CamelBak is respected for its innovation, leadership and authenticity.

On August 24, 2011, we made loans to and purchased a controlling interest in CamelBak for approximately \$258.6 million, representing 90% of the equity in CamelBak.

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Results of Operations and Pro forma Results of Operations

The table below summarizes the pro-forma income from operations data for CamelBak for the three and nine month periods ended September 30, 2012 and September 30, 2011.

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	September 30, 2012	2011 (Pro-forma)	September 30, 2012	2011 (Pro-forma)
Net sales	\$ 36,672	\$ 38,319	\$ 121,140	\$ 114,695
Cost of sales (a)	20,050	22,771	65,400	68,025
Gross profit	16,622	15,548	55,740	46,670
Selling, general and administrative expense (b)	9,067	7,303	27,160	22,676
Fees to manager (c)	125	125	375	375
Amortization of intangibles (d)	2,345	2,180	7,100	6,936
Income from operations	\$ 5,085	\$ 5,940	\$ 21,105	\$ 16,683

Pro-forma results of operations of CamelBak for the three and nine month periods ended September 30, 2012 and 2011 include the following pro-forma adjustments, applied to historical results as if we acquired CamelBak on January 1, 2011:

- (a) Cost of sales for the nine months ended September 30, 2011 does not include \$6.0 million of amortization expense associated with the inventory fair value step-up as a result of and derived from the purchase price allocation in connection with our purchase.
- (b) Selling, general and administrative costs were reduced by approximately \$7.0 million in the three and nine-months ended September 30, 2011 representing an adjustment for one-time transaction costs incurred as a result of our purchase.
- (c) Represents management fees that would have been payable to the Manager in each period presented.
- (d) An increase in amortization of intangible assets totaling \$1.8 million and \$5.4 million, respectively, in the three and nine month periods ended September 30, 2012 and \$1.3 million and \$5.6 million, respectively in the three and nine months ended September 30, 2011. These adjustments are the result of and were derived from the purchase price allocation in connection with our acquisition.

Three months ended September 30, 2012 compared to the pro forma three months ended September 30, 2011.

Net sales

Net sales for the three months ended September 30, 2012 were approximately \$36.7 million, a decrease of \$1.6 million, or 4.3%, compared to the same period in 2011. The decrease in gross sales is a result of decreased sales in Hydration Systems (\$0.1 million), Accessories (\$1.1 million) and Gloves (\$3.9 million) offset in part by an increase in Bottle sales (\$3.3 million). The decrease in Glove sales during the three months ended September 30, 2012 compared to the same period in 2011 is due to decreased demand from the U.S. military, resulting principally from a drawdown of U.S. combat troops during the period and the absence of sales from a direct contract with the U.S. Military that was not in effect in 2012. The increase in Bottle sales is principally due to the expansion of offerings in Bottles, such as the introduction of eddy™ and the continued expansion in its customer base, including new and existing customers.

Hydration Systems and Bottles represented approximately 86% of gross sales for the three months ended September 30, 2012 compared to 74% for the same period in 2011. This increase is due in large part to the significant decrease in Glove sales. Military sales represented approximately 38% of gross sales for the three months ended September 30, 2012 compared to 45% for the same period in 2011. International sales represented approximately 14% of gross sales for the three months ended September 30, 2012 compared to 16% for the same period in 2011.

Cost of sales

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Cost of sales for the three months ended September 30, 2012 were approximately \$20.1 million compared to approximately \$22.8 million in the same period of 2011. The decrease of \$2.7 million is due principally to the corresponding decrease in net sales and the significant decrease in Glove sales. Gross profit as a percentage of sales increased to 45.3% for the quarter ended September 30, 2012 compared to 40.6% in the quarter ended September 30, 2011. The increase is attributable to a favorable sales mix during the quarter ended September 30, 2012 compared to last year's quarter, and the decrease in Glove sales as a percentage of total sales. Gloves carry a lower gross profit margin than CamelBak's other product lines.

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Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2012 increased to approximately \$9.1 million or 24.7% of net sales compared to \$7.3 million or 19.1% of net sales for the same period of 2011. The \$1.8 million increase in selling, general and administrative expense incurred during the three months ended September 30, 2012 compared to the same period in 2011 is attributable to: (i) increases in compensation expense (\$0.8 million), (ii) increases in marketing costs (\$0.4 million) and (iii) an increase in bad debt expense totaling \$0.2 million, with the balance of the increase due principally to increased infrastructure costs and general overhead, which together with the increases noted above were necessary to support expansion in connection with growth initiatives.

Income from operations

Income from operations for the three months ended September 30, 2012 was \$5.1 million, a decrease of \$0.9 million when compared to the same period in 2011, principally based on the factors described above.

Nine months ended September 30, 2012 compared to the pro forma nine months ended September 30, 2011.

Net sales

Net sales for the nine months ended September 30, 2012 were approximately \$121.1 million, an increase of \$6.4 million, or 5.6%, compared to the same period in 2011. The increase in gross sales is a result of increased sales in Hydration Systems (\$10.1 million) and Bottles (\$8.2 million) offset in part by a decrease in sales of Gloves (\$9.2 million) and Accessories (\$1.2 million). The increased Bottle and Hydration Systems sales during the nine months ended September 30, 2012 compared to the same period in 2011 is attributable to the continued success of Antidote, CamelBak's new reservoir for the recreational Hydration Systems line, introduced in 2011, the expansion of offerings in Bottles, such as the introduction of eddy™, and the continued expansion in its customer base, including new and existing customers, for all product lines. CamelBak began providing Hydration Systems as a subcontractor as part of the United States Marine Corps pack program beginning at the end of 2011, which contributed to the increase in Hydration Systems sales in the first nine months of 2012 compared to 2011. CamelBak anticipates fulfillment of this contract during the first quarter of 2013. The decrease in Glove sales during the nine months ended September 30, 2012 compared to the same period in 2011 is due to decreased demand from the U.S. military, resulting principally from a drawdown of U.S. combat troops during the period and the absence of sales from a direct contract with the U.S. Military that was not in effect in 2012.

Sales of Hydration Systems and Bottles represented approximately 85% of gross sales for the nine months ended September 30, 2012 compared to 74% for the same period in 2011. Military sales represented approximately 38% of gross sales for the nine months ended September 30, 2012 compared to 42% for the same period in 2011. International sales represented approximately 17% of gross sales for the nine months ended September 30, 2012 compared to 18% for the same period in 2011.

Cost of sales

Cost of sales for the nine months ended September 30, 2012 were approximately \$65.4 million compared to approximately \$68.0 million in the same period of 2011. The decrease of \$2.6 million is due principally to the decrease in Glove sales. Gross profit as a percentage of sales increased to 46.0% for the nine months ended September 30, 2012 compared to 40.7% for the same period in 2011. The increase is attributable to a favorable sales mix during the nine months ended September 30, 2012 compared to last year, and the decrease in Glove sales as a percentage of total sales. Gloves carry a lower gross profit margin than CamelBak's other product lines.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2012 increased to approximately \$27.2 million or 22.4% of net sales compared to \$22.7 million or 19.8% of net sales for the same period of 2011. The \$4.5 million increase in selling, general and administrative expense incurred during the nine months ended September 30, 2012 compared to the same period in 2011 is attributable to: (i) increases in sales commissions (\$0.7 million), (ii) increases in marketing costs (\$0.5 million), (iii) increases in rent and professional fees (\$0.5 million) and (iv) increases in compensation expense (\$2.1 million). The balance of the increase is due principally to increased infrastructure costs and general overhead, which together with the increases noted above were necessary to support expansion in connection with growth initiatives.

Income from operations

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Income from operations for the nine months ended September 30, 2012 was approximately \$21.1 million, an increase of \$4.4 million when compared to the same period in 2011, based on the factors described above.

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ERGObaby

Overview

ERGObaby, with headquarters in Los Angeles, California, is a premier designer, marketer and distributor of baby wearing products and accessories. ERGObaby offers a broad range of wearable baby carriers and related products that are sold through more than 900 retailers and web shops in the United States and internationally in approximately 50 countries. ERGObaby's product lines include baby carriers (organic and standard), accessories and Orbit Baby's travel systems.

On September 16, 2010 we made loans to and purchased a controlling interest in ERGObaby for approximately \$85.2 million, representing approximately 84% of the equity in ERGObaby. ERGObaby's reputation for product innovation, reliability and safety has led to numerous awards and accolades from consumer surveys and publications, including Parenting Magazine, Pregnancy Magazine and Wired Magazine.

On November 18, 2011 ERGObaby acquired Orbit Baby. Orbit Baby produces and markets a premium line of stroller travel systems. Orbit Baby's high-quality products include car seats, strollers and bassinets that are interchangeable using a patented hub ring. The results of operations for ERGObaby for the three and nine months ended September 30, 2011 do not include Orbit Baby operating results.

Results of Operations

The table below summarizes the income from operations for the three months and nine months ended September 30, 2012 and September 30, 2011.

(in thousands)	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 18,540	\$ 10,726	\$ 45,565	\$ 33,383
Cost of sales (a)	7,149	3,602	17,690	11,627
Gross profit	11,391	7,124	27,875	21,756
Selling, general and administrative expense	6,283	4,023	17,301	12,504
Fees to manager	125	125	375	375
Amortization of intangibles	743	429	2,294	1,287
Income from operations	\$ 4,240	\$ 2,547	\$ 7,905	\$ 7,590

Three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Net sales

Net sales for the three months ended September 30, 2012 were \$18.5 million, an increase of \$7.8 million or 72.9% compared to the same period in 2011. Domestic sales were approximately \$7.4 million in the three months ended September 30, 2012 compared to approximately \$4.4 million in the same period for 2011. The increase is primarily attributable to Orbit Baby sales of \$2.4 million in the 2012 period. International sales were approximately \$11.2 million in the three months ended September 30, 2012 compared to \$6.4 million in 2011, an increase of \$4.8 million or 75%. Orbit Baby's international sales were \$1.4 million during the three months ended September 30, 2012. The remaining increase in international sales is due to an increase in sales in Asia and South America.

Excluding Orbit Baby sales of approximately \$3.8 million in the three months ended September 30, 2012, baby carriers represented 89.4% of net sales in the quarter ended September 30, 2012 compared to 86.5% during the same period of 2011.

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Cost of sales

Cost of sales for the three months ended September 30, 2012 were approximately \$7.1 million compared to \$3.6 million in the same period of 2011. The increase of \$3.5 million is due principally to the increase in sales in the same period. Gross profit as a percentage of sales decreased from 66.4% for the quarter ended September 30, 2011 to 61.4% for the quarter ended September 30, 2012. The 5.0% decrease is primarily attributable to lower margin Orbit Baby product sales in the September 30, 2012 period and a larger proportion of international baby carriers in the third quarter of 2012 compared to 2011. International baby carrier sales generate a lower gross profit margin than domestic baby carrier sales.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2012 increased to approximately \$6.3 million and represented 33.9% of net sales compared to \$4.0 million or 37.5% of net sales for the same period of 2011. The increase of \$2.3 million is primarily attributable to the selling, general and administrative expenses of Orbit Baby (\$1.6 million), offset in part by a decrease in professional fees in the third quarter of 2012 (\$0.3 million), each as compared to the 2011 third quarter, and the impact of an earn-out provision that was reversed in the third quarter of 2011 (\$1.0 million).

Amortization of intangibles

Amortization expense increased \$0.3 million in the three months ended September 30, 2012 compared to the same period in 2011 as a result of amortizing those intangible assets acquired as part of the purchase of Orbit Baby.

Income from operations

Income from operations for the three months ended September 30, 2012 was \$4.2 million compared to \$2.5 million in the same period of 2011. The \$1.7 million increase is due principally to those factors described above.

Nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Net sales

Net sales for the nine months ended September 30, 2012 were \$45.6 million, an increase of \$12.2 million or 36.5% compared to the same period in 2011. The increase is primarily attributable to Orbit Baby sales of \$9.4 million during the nine months ended September 30, 2012 with the remaining 2012 increase attributable to baby carrier and accessory sales. Domestic sales were approximately \$18.9 million in the nine months ended September 30, 2012 compared to approximately \$11.9 million in the same period for 2011. The increase of \$7.0 million or 58.7% is primarily attributable to Orbit Baby sales of \$6.3 million in the 2012 period. International sales were approximately \$26.7 million in the nine months ended September 30, 2012 compared to \$21.5 million in 2011, an increase of \$5.2 million or 24.2%. Orbit Baby's international sales were \$3.1 million in the nine months ended September 30, 2012.

Excluding Orbit Baby sales of \$9.4 million, baby carriers represented 88.9% of sales in the nine months ended September 30, 2012 compared to 87.8 % during the same period of 2011.

Cost of sales

Cost of sales for the nine months ended September 30, 2012 were approximately \$17.7 million compared to \$11.6 million in the same period of 2011. The increase of \$6.1 million is due principally to the increase in sales in the same period. Gross profit as a percentage of sales decreased from 65.2% for the nine months ended September 30, 2011 to 61.2% in 2012. The 4.0% decrease is primarily attributable to lower margin Orbit Baby product sales in the September 30, 2012 period and a larger proportion of international baby carriers during the nine months ended September 30, 2012 compared to the same period in 2011. International baby carrier sales generate a lower gross profit margin than domestic baby carrier sales.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2012 increased to approximately \$17.3 million or 38.0% of net sales compared to \$12.5 million or 37.5% of net sales for the same period of 2011. The increase of \$4.8 million is primarily attributable to

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the selling, general and administrative expenses of Orbit Baby (\$4.1 million) and to a lesser extent the impact of an earn-out provision that was reversed in the third quarter of 2011 (\$0.2 million) and an increase in marketing and personnel costs (\$1.1 million) to support growth initiatives, offset in part by a decrease in bad debt expense (\$0.4 million) at the baby carrier level during the nine-months ended September 30, 2012 compared to the same period in 2011.

Table of Contents*Amortization of intangibles*

Amortization expense increased \$1.0 million in the nine months ended September 30, 2012 compared to the same period in 2011 as a result of amortizing those intangible assets acquired as part of the purchase of Orbit Baby.

Income from operations

Income from operations for the nine months ended September 30, 2012 increased approximately \$0.3 million to \$7.9 million compared to the same period in 2011, due principally to those factors described above.

Fox Factory*Overview*

Fox, headquartered in Scotts Valley, California, is a branded action sports company that designs, manufactures and markets high-performance suspension products for mountain bikes and power sports, which include: snowmobiles, motorcycles, all-terrain vehicles ATVs, and other off-road vehicles.

Fox's products are recognized by manufacturers and consumers as being among the most technically advanced suspension products currently available in the marketplace. Fox's technical success is demonstrated by its dominance of award winning performances by professional athletes across its suspension products. As a result, Fox's suspension components are incorporated by original equipment manufacturers (OEM) on their high-performance models at the top of their product lines in the mountain bike and powered vehicle sector. OEMs capitalize on the strength of Fox's brand to maintain and expand their own sales and margins. In the Aftermarket segment, customers seeking higher performance select Fox's suspension components to enhance their existing equipment.

Fox sells to more than 160 OEM and 7,600 Aftermarket customers across its market segments. In each of the years 2011, 2010 and 2009, approximately 80%, 78% and 76% of net sales were to OEM customers. The remaining net sales were to Aftermarket customers.

Results of Operations

The table below summarizes the income from operations data for Fox Factory for the three and nine month periods ended September 30, 2012 and September 30, 2011.

(in thousands)	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 72,865	\$ 61,689	\$ 179,256	\$ 150,464
Cost of sales	52,746	42,816	129,593	105,787
Gross profit	20,119	18,873	49,663	44,677
Selling, general and administrative expense	7,662	7,427	23,177	20,746
Fees to manager	125	125	375	375
Amortization of intangibles	1,341	1,304	3,974	3,913
Income from operations	\$ 10,991	\$ 10,017	\$ 22,137	\$ 19,643

Three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Net sales

Net sales for the three months ended September 30, 2012 increased approximately \$11.2 million, or 18.1%, compared to the corresponding period in 2011. Sales growth was driven by sales to OEM which increased \$9.6 million to \$60.2 million during the three months ended

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September 30, 2012 compared to \$50.6 million for the same period in 2011. The increase in net sales is largely driven by increased spec with our customers. The remaining increase in net sales totaling \$1.6 million reflects increased sales to Aftermarket customers in the third fiscal quarter of 2012 compared to the same period in 2011.

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Cost of sales

Cost of sales for the three months ended September 30, 2012 increased approximately \$9.9 million compared to the corresponding period in 2011. The increase in cost of sales is primarily due to increased net sales during the three months ended September 30, 2012 compared to the same period of 2011. Gross profit as a percentage of sales was approximately 27.6% for the three months ended September 30, 2012 compared to 30.6% for the same period in 2011. The 3.0% decrease in gross profit as a percentage of sales during 2012 is largely attributable to the increased overhead costs associated with consolidating our Watsonville operations, increased costs associated with expanding our Taiwanese operations and increased warranty costs and expedited freight costs incurred during the third quarter of 2012 compared to the same period of 2011.

Selling, general and administrative expense

Selling, general and administrative expense increased approximately \$0.2 million during the three months ended September 30, 2012 compared to the same period in 2011. This increase is primarily the result of increases in employee related costs to support company growth during the three months ended September 30, 2012.

Income from operations

Income from operations for the three months ended September 30, 2012 increased approximately \$1.0 million to \$11.0 million compared to the corresponding period in 2011, based principally on the increase in net sales, offset in part by the increases in selling, general and administrative costs, all as described above.

Nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Net sales

Net sales for the nine months ended September 30, 2012 increased approximately \$28.8 million, or 19.1%, compared to the corresponding period in 2011. Sales growth was driven by sales to OEM which increased \$23.9 million to \$143.5 million during the nine months ended September 30, 2012 compared to \$119.6 million for the same period in 2011. The increase in net sales is largely driven by increased spec with our customers and to a lesser degree by increased demand for carryover product. The remaining increase in net sales totaling \$4.9 million reflects increased sales to Aftermarket customers in the nine months ended September 30, 2012 compared to the same period in 2011.

Cost of sales

Cost of sales for the nine months ended September 30, 2012 increased approximately \$23.8 million compared to the corresponding period in 2011. The increase in cost of sales is primarily due to increased net sales during 2012. Gross profit as a percentage of sales was approximately 27.7% for the nine months ended September 30, 2012 compared to 29.7% for the same period in 2011. The 2.0% decrease in gross profit as a percentage of sales during 2012 is largely attributable to the increased overhead costs associated with consolidating our Watsonville operations; increased costs associated with expanding our Taiwanese operations and increased expedited freight costs and warranty costs. WHY?

Selling, general and administrative expense

Selling, general and administrative expense increased approximately \$2.4 million during the nine months ended September 30, 2012 compared to the same period in 2011. This increase is primarily the result of increases in employee costs necessary to support company growth during the nine months ended September 30, 2012 compared to the same period in 2011, and costs incurred in connection with a debt recapitalization (\$0.8 million) which occurred during June 2012 (see Related Party Transactions and Certain Transactions Involving our Businesses).

Income from operations

Income from operations for the nine months ended September 30, 2012 increased approximately \$2.5 million to \$22.1 million compared to the corresponding period in 2011, based principally on the increase in net sales, offset in part by the increases in selling, general and administrative costs, all as described above.

Liberty Safe

Overview

Based in Payson, Utah and founded in 1988, Liberty Safe is the premier designer, manufacturer and marketer of home and gun safes in North America. From its over 200,000 square foot manufacturing facility, Liberty Safe produces a wide range of home and gun safe models in a broad assortment of sizes, features and styles ranging from an entry level product to good, better and best products. Products are marketed under the Liberty brand, as well as a portfolio of licensed and private label

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brands, including Remington, Cabela's and John Deere. Liberty Safe's products are the market share leader and are sold through an independent dealer network (Dealer) in addition to various sporting goods and home improvement retail outlets (Non-Dealer or National account). Liberty has the largest independent dealer network in the industry.

Historically, approximately 60% of Liberty Safe's net sales are Non-Dealer sales and 40% are Dealer sales.

On March 31, 2010 we made loans to and purchased a controlling interest in Liberty Safe for approximately \$70.2 million, representing 96.2% of the equity in Liberty Safe.

Results of Operations

The table below summarizes the results of operations for Liberty Safe for the three months ended September 30, 2012 and the three months ended September 30, 2011. It also summarizes the results of operations for the nine month period ended September 30, 2012 and the results of operations for the nine months ended September 30, 2011.

(in thousands)	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 23,385	\$ 21,786	\$ 67,000	\$ 60,611
Cost of sales	17,109	16,365	49,921	45,297
Gross profit	6,276	5,421	17,079	15,314
Selling, general and administrative expense	2,870	2,545	8,682	7,686
Fees to manager	125	125	375	375
Amortization of intangibles	1,230	1,294	3,754	3,883
Income from operations	\$ 2,051	\$ 1,457	\$ 4,268	\$ 3,370

Three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Net sales

Net sales for the three months ended September 30, 2012 increased approximately \$1.6 million, or 7.3%, over the corresponding three months ended September 30, 2011. Non-Dealer sales were approximately \$12.6 million in the three months ended September 30, 2012 compared to \$13.9 million in the same period in 2011 representing a decrease of \$1.3 million or 9.4%. Dealer sales totaled approximately \$10.8 million in the three months ended September 30, 2012 compared to \$7.9 million in the same period in 2011 representing an increase of \$2.9 million or 37.6%. The decrease in Non-Dealer sales in 2012 is due in large part to the absence of sales in the third quarter of 2012 in connection with a large National retail account's holiday program which generated approximately \$3.0 million in sales during the third quarter of 2011. The significant increase in net sales at the Dealer level is the result of strong demand for Liberty branded product. Management believes that the increased sales at the Dealer level continues to be bolstered by its national advertising campaign in conjunction with those accounts that maintain consistent Liberty Safe product advertising at the local level.

Cost of sales

Cost of sales for the three months ended September 30, 2012 increased approximately \$0.7 million. The increase in cost of sales is primarily attributable to the increase in net sales for the same period. Gross profit as a percentage of net sales totaled approximately 26.8% and 24.9% of net sales for the three month periods ended September 30, 2012 and September 30, 2011, respectively. The increase in gross profit as a percentage of sales for the three months ended September 30, 2012 compared to 2011 is principally attributable to Dealer and Non-Dealer price increases enacted during the second and third quarter of 2012, and a favorable sales mix.

Selling, general and administrative expense

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Selling, general and administrative expense for the three months ended September 30, 2012, increased approximately \$0.3 million compared to the same period in 2011. This increase is largely the result of increased direct commission expense and co-op advertising costs, both related to growth initiatives and the increase in sales.

Income from operations

Income from operations was approximately \$2.1 million for the three months ended September 30, 2012, representing an increase of \$0.6 million compared to the same period in 2011. The improved operating results are principally due to the factors described above, particularly the increase in net sales.

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Nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Net sales

Net sales for the nine months ended September 30, 2012 increased approximately \$6.4 million, or 10.5%, over the corresponding nine months ended September 30, 2011. Non-Dealer sales were approximately \$38.3 million in the nine months ended September 30, 2012 compared to \$37.0 million in the same period in 2011, representing an increase of \$1.3 million or 3.5%. Dealer sales totaled approximately \$28.7 million in the nine months ended September 30, 2012 compared to \$23.6 million in the same period in 2011, representing an increase of \$5.1 million or 21.6%. The increase in Non-Dealer sales in 2012 is due in large part to increased sales in the sporting goods channel. These increases were offset in part by the absence of sales in the third quarter of 2012, in connection with a large National retail account's holiday program which generated approximately \$3.0 million in sales during the third quarter of 2011. The increase in net sales at the Dealer level is the result of strong demand for Liberty branded product. Management believes that the increased sales at the Dealer level continue to be bolstered by its national advertising campaign in conjunction with those accounts that maintain consistent Liberty Safe product advertising at the local level.

Cost of sales

Cost of sales for the nine months ended September 30, 2012 increased approximately \$4.6 million. The increase in cost of sales is primarily attributable to the increase in net sales for the same period. Gross profit as a percentage of net sales totaled approximately 25.5% and 25.3% of net sales for the nine month periods ended September 30, 2012 and September 30, 2011, respectively. The increase in gross profit as a percentage of sales for the nine months ended September 30, 2012 compared to 2011 is principally attributable to Dealer and Non-Dealer price increases enacted during the second and third quarter of 2012, and a favorable sales mix.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2012, increased approximately \$1.0 million compared to the same period in 2011. This increase is principally the result of increases in the following costs to support the significant increase in sales, particularly commission expense and co-op advertising (\$0.3 million), and personnel costs (\$0.3 million) all to support growth initiatives and the resultant increase in net sales.

Income from operations

Income from operations was approximately \$4.3 million for the nine months ended September 30, 2012 representing an increase of \$0.9 million compared to the same period in 2011, which reflected operating income of \$3.4 million. The improved operating results are principally due to the factors described above, particularly the increase in net sales.

Tridien

Overview

Tridien Medical, headquartered in Coral Springs, Florida, is a leading designer and manufacturer of powered and non-powered medical therapeutic support services and patient positioning devices serving the acute care, long-term care and home health care markets. Tridien is one of the nation's leading designers and manufacturers of specialty therapeutic support surfaces with manufacturing operations in multiple locations to better serve a national customer base.

Tridien provides customers the opportunity to source leading surface technologies from the designer and manufacturer.

Tridien develops products both independently and in partnership with large distribution intermediaries. Medical distribution companies then sell or rent the therapeutic support surfaces, sometimes in conjunction with bed frames and accessories to one of three end markets: (i) acute care, (ii) long term care and (iii) home health care. The level of sophistication largely varies for each product, as some patients require simple foam mattress beds (non-powered support surfaces) while others may require electronically controlled, low air loss, lateral rotation, pulmonary therapy or alternating pressure surfaces (powered support surfaces). The design, engineering and manufacturing of most products are completed in-house (with a portion of our products manufactured in Taiwan) and are FDA compliant.

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The table below summarizes the income from operations data for Tridien for the three and nine month periods ended September 30, 2012 and September 30, 2011.

(in thousands)	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 14,858	\$ 15,120	\$ 42,586	\$ 42,917
Cost of sales	11,092	11,064	31,793	31,429
Gross profit	3,766	4,056	10,793	11,488
Selling, general and administrative expense	2,222	1,969	6,497	6,225
Fees to manager	88	88	263	263
Amortization of intangibles	326	330	979	989
Income from operations	\$ 1,130	\$ 1,669	\$ 3,054	\$ 4,011

Three months ended September 30, 2012 compared to the three months ended September 30, 2011.**Net sales**

Net sales for the three months ended September 30, 2012 decreased approximately \$0.3 million or 1.7% over the corresponding three months ended September 30, 2011. Net sales of non-powered support surfaces and patient positioning devices totaled \$11.9 million in each of the three-month periods ended September 30, 2012 and 2011. Net sales of powered products totaled \$2.9 million during the three months ended September 30, 2012 compared to \$3.2 million in 2011, a decrease of \$0.3 million or 7.1%, largely due to a periodic fleet upgrade from a large customer.

Cost of sales

Cost of sales were flat in the quarter ended September 30, 2012 compared to the same period in 2011, despite the decrease in sales. Gross profit as a percentage of sales was 25.3% in the three months ended September 30, 2012 compared to 26.8% in the corresponding period in 2011. The decrease in gross profit as a percentage of sales of 1.5% in the three months ended September 30, 2012 compared to the same period of 2011 is due to an unfavorable product sales mix.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2012 increased approximately \$0.3 million compared to the same period of 2011. This increase is attributable to an increased spending on new product development.

Income from operations

Income from operations decreased approximately \$0.5 million to \$1.1 million for the three months ended September 30, 2012 compared to \$1.6 million in the three months ended September 30, 2011 and is attributable to those factors described above. The Medical Device Tax, a 2.3% excise tax included as part of the Affordable Care act signed into law in 2010, will be levied on Tridien revenues beginning in 2013. If we are not able to pass these charges through to our customers it will have a negative impact on our results of operation in 2013.

Nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.**Net sales**

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Net sales for the nine months ended September 30, 2012 decreased approximately \$0.3 million or 1.0% compared to the corresponding nine months ended September 30, 2011. Net sales of non-powered support surfaces and patient positioning devices totaled \$34.7 million in 2012 compared to \$34.5 million during the same period in 2011, an increase of \$0.3 million or 1.0%. Net sales of powered products totaled \$7.8 million during the nine months ended September 30, 2012 compared to \$8.5 million in 2011, a decrease of \$0.6 million or 7.2%, largely due to a periodic fleet upgrade from a large customer.

Cost of sales

Cost of sales increased approximately \$0.4 million in the nine months ended September 30, 2012 compared to the same period of 2011 primarily as a result of incremental costs incurred related to a new Midwest manufacturing facility. Gross

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profit as a percentage of sales was 25.3% in the nine months ended September 30, 2012 compared to 26.8% in the corresponding period in 2011. In addition to the costs associated with our new manufacturing and distribution facility, the decrease in gross profit as a percentage of sales in the nine months ended September 30, 2012 compared to the same period of 2011 is due to an unfavorable product sales mix.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2012 increased 0.3 million compared to the same period in 2011. The increase is due to an increase in spending on new product development and spending on growth initiatives.

Income from operations

Income from operations decreased approximately \$1.0 million to \$3.1 million for the nine months ended September 30, 2012 compared to \$4.0 million in the nine months ended September 30, 2011, due principally to those factors described above.

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Liquidity and Capital Resources

For the nine months ended September 30, 2012, on a consolidated basis, cash flows provided by operating activities totaled approximately \$21.4 million, which represents a \$36.4 million decrease in cash provided by operations compared to the nine months ended September 30, 2011. This decrease is the result of (i) capital investment associated with the build-up of inventories in 2012 (\$22.4 million), (ii) the additional pay down of the supplemental put liability to our Manager in 2012 compared to 2011 (\$6.8 million), and: (iii) the decrease in net income during the nine months ended September 30, 2012 compared to 2011 (\$4.6 million).

For the nine months ended September 30, 2012, on a consolidated basis, cash flows used in investing activities totaled approximately \$77.8 million, which reflects the acquisition of Arnold Magnetics (\$124.1 million), further investment in existing portfolio companies (\$16.3 million) and capital expenditures (\$9.7 million) offset in part by proceeds from the sale of Halo (\$66.5 million) and Staffmark (\$5.0 million).

For the nine months ended September 30, 2012, on a consolidated basis, cash flows used in financing activities totaled approximately \$55.8 million, principally reflecting distributions paid to shareholders of CODI during the year (\$52.2 million) and non-controlling shareholders (\$16.3 million), the cost of redemption of preferred stock and accumulated interest at Camelback (\$48.0 million) offset in part by net borrowings on our Credit Facility (\$46.6 million) and the sale of stock to non-controlling shareholders (\$11.8 million).

At September 30, 2012, we had approximately \$20.0 million of cash and cash equivalents on hand. The majority of our cash is invested in short-term money market accounts and is maintained in accordance with the Company's investment policy, which identifies allowable investments and specifies credit quality standards.

As of September 30, 2012, we had the following outstanding loans due from each of our businesses:

Advanced Circuits \$57.4 million;

American Furniture \$16.4 million;

Arnold Magnetics \$81.6 million;

CamelBak \$138.2 million;

ERGObaby \$55.6 million;

Fox \$73.5 million;

Liberty \$40.9 million; and

Tridien \$0 million.

Each loan to our businesses has a scheduled maturity date and each business is entitled to repay all or a portion of the principal amount of the outstanding loans, without penalty, prior to maturity. We are required to fund, in the form of an additional equity investment, any shortfall in the difference between Adjusted EBITDA and Fixed Charges as defined in American Furniture's credit agreement with us. Per the Maintenance Agreement the shortfall that we are required to fund, AFM is in turn required to pay down on its term debt with us. The amount of the shortfall at September 30, 2012 is approximately \$0.8 million.

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Our primary source of cash is from the receipt of interest and principal on the outstanding loans to our businesses. Accordingly, we are dependent upon the earnings of and cash flow from these businesses, which are available for (i) operating expenses; (ii) payment of principal and interest under our Credit Facility; (iii) payments to CGM due pursuant to the Management Services Agreement, the LLC Agreement, and the Supplemental Put Agreement; (iv) cash distributions to our shareholders; and (v) investments in future acquisitions. Payments made under (iii) above are required to be paid before distributions to shareholders and may be significant and exceed the funds held by us, which may require us to dispose of assets or incur debt to fund such expenditures.

We recognized a non-cash charge to earnings of approximately \$6.4 million during the nine months ended September 30, 2012 in order to reflect an increase in our estimated liability in connection with the Supplemental Put Agreement between us and CGM. A liability of approximately \$42.2 million is reflected in our condensed consolidated balance sheet, which represents our estimated liability for this obligation at September 30, 2012. During the nine months ended September 30, 2012, we paid CGM \$13.7 million in connection with the profit allocation earned on the sale of Staffmark.

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The current portion of the supplemental put liability of \$5.2 million represents an accrual for the contribution-based profit allocation that will be paid to our Manager during the second quarter of 2013. This accrual primarily represents the contribution-based profit for the fifth anniversary date of Fox and reduces the overall supplemental put liability when paid.

The following table provides the contribution-based profit for each of the businesses we control at September 30, 2012 and the respective quarter end in which each five year anniversary occurs, reconciled to the total supplemental put liability:

<i>(in thousands)</i>	Contribution-based profit allocation accrual at September 30, 2012	Quarter End of Fifth Anniversary Date of Acquisition
Advanced Circuits	\$ 2,246	June 30, 2016
American Furniture	(13,791)	September 30, 2017
Arnold Magnetics	(1,097)	March 31, 2017
CamelBak	(744)	September 30, 2016
ERGObaby	539	September 30, 2015
FOX	5,007	March 31, 2013
Liberty	(13)	March 31, 2015
Tridien	(338)	September 30, 2016
Total contribution-based profit portion	\$ (8,191)	
Profit allocation due for HALO sale	211	
Estimated gain on sale portion	50,185	
Total supplemental put liability	\$ 42,205	

We believe that we currently have sufficient liquidity and resources to meet our existing obligations, including quarterly distributions to our shareholders, as approved by our Board of Directors, over the next twelve months. The quarterly distribution for the three months ended September 30, 2012 was paid on October 31, 2012 and was \$17.4 million.

Our Credit Facility provides for the Revolving Credit Facility totaling \$290 million which matures in October 2016 and a Term Loan Facility totaling approximately \$253 million, which matures in October 2017.

On April 2, 2012, we exercised an option with our Lender to increase the Term Loan Facility by \$30 million. In connection with the increase, we amended the pricing of the Term Loan Facility wherein borrowings under the facility now bear interest at LIBOR plus 5% with a floor of 1.25%. We incurred an amendment fee of approximately \$2.2 million.

The Term Loan Facility requires quarterly payments of \$0.6 million which commenced March 31, 2012, with a final payment of the outstanding principal balance due in October 2017.

At September 30, 2012, we had \$19.0 million in outstanding borrowings under the Revolving Credit Facility.

We had approximately \$269 million in borrowing base availability under this facility at September 30, 2012. Letters of credit totaling \$1.7 million were outstanding at September 30, 2012. We currently have no exposure to failed financial institutions.

The following table reflects required and actual financial ratios as of September 30, 2012 included as part of the affirmative covenants in our Credit Facility:

Description of Required Covenant Ratio	Covenant Ratio Requirement	Actual Ratio
Fixed Charge Coverage Ratio	greater than or equal to 1.5:1.0	2.50:1.0
Total Debt to EBITDA Ratio	less than or equal to 3.5:1.0	1.86:1.0

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We intend to use the availability under our Credit Facility and cash on hand to pursue acquisitions of additional businesses to the extent permitted under our Credit Facility, to fund distributions and to provide for other working capital needs. We have considered the impact of recent market instability and credit availability in assessing the adequacy of our liquidity and capital resources.

Table of Contents**Interest Expense**

We incurred interest expense totaling \$19.7 million for the nine months ended September 30, 2012 compared to \$6.1 million for the same period in 2011. The components of interest expense are as follows (in thousands):

	Nine months ended September 30,	
	2012	2011
Interest on credit facilities	\$ 13,375	\$ 3,847
Unused fee on revolving credit facility	1,984	2,041
Amortization of original issue discount	1,951	
Realized losses on interest rate hedges		143
Unrealized losses on interest rate derivatives	2,108	
Amortization of interest rate cap	165	
Letter of credit fees	54	43
Other	23	31
Interest expense	\$ 19,660	\$ 6,105
 Average daily balance of debt outstanding	 \$ 270,886	 \$ 128,170
 Effective interest rate	 9.7%	 6.4%

Income Taxes

We incurred income tax expense of \$17.1 million with an annual effective tax rate of 60.5% in the first nine months of 2012 compared to \$9.4 million with an effective tax rate of 96.0% during the same period in 2011. A portion of the acquisition costs expensed in the nine months ended September 30, 2012 in connection with the Arnold and Universal Circuits acquisitions are not tax deductible and losses incurred at the Company, which is an LLC, are not tax deductible at the corporate level as those costs are passed through to the shareholders. For the first nine months of 2012, these two items accounted for 3.1% and 16.2%, respectively, of the increased effective tax rate compared to the Federal statutory rate at September 30, 2012. Goodwill impairment charges expensed in the nine months ended September 30, 2011 in connection with the American Furniture write-offs are not tax deductible and losses incurred at the Company, which is an LLC, are not tax deductible at the corporate level as those costs are passed through to the shareholders. For the first nine months of 2011, these two items accounted for 21.1% and 39.3%, respectively, of the increased effective tax rate compared to the Federal statutory rate at September 30, 2011. The components of income tax expense as a percentage of income from continuing operations before income taxes for the nine months ended September 30, 2012 and 2011 are as follows:

	Nine months ended September 30,	
	2012	2011
United States Federal Statutory Rate	35.0%	35.0%
Foreign and State income taxes (net of Federal benefits)	9.0	10.3
Expenses of Compass Group Diversified Holdings, LLC representing a pass through to shareholders (1)	16.2	39.3
Impact of subsidiary employee stock options	(2.0)	2.7
Domestic production activities deduction	(2.9)	(11.8)
Non-deductible acquisition costs	3.1	
Impairment expense		21.1
Non-recognition of NOL carryforwards at AFM	3.5	
Other	(1.4)	(0.6)
Effective income tax rate	60.5%	96.0%

- (1) The effective income tax rate for all periods includes a significant loss at the company's parent, which is taxed as a partnership.

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Reconciliation of Non-GAAP Financial Measures

From time to time we may publicly disclose certain non-GAAP financial measures in the course of our investor presentations, earnings releases, earnings conference calls or other venues. A non-GAAP financial measure is a numerical measure of historical or future performance, financial position or cash flow that excludes amounts, or is subject to adjustments that effectively exclude amounts, included in the most directly comparable measure calculated and presented in accordance with GAAP in our financial statements, and vice versa for measures that include amounts, or are subject to adjustments that effectively include amounts, that are excluded from the most directly comparable measure as calculated and presented. GAAP refers to generally accepted accounting principles in the United States.

Non-GAAP financial measures are provided as additional information to investors in order to provide them with an alternative method for assessing our financial condition and operating results. These measures are not meant to be a substitute for GAAP, and may be different from or otherwise inconsistent with non-GAAP financial measures used by other companies.

The tables below reconcile the most directly comparable GAAP financial measures to EBITDA, Adjusted EBITDA and Cash Flow Available for Distribution and Reinvestment (CAD).

Reconciliation of Net income (loss) to EBITDA and Adjusted EBITDA

EBITDA Earnings before Interest, Income Taxes, Depreciation and Amortization (EBITDA) is calculated as net income (loss) before interest expense, income tax expense (benefit), depreciation expense and amortization expense. Amortization expenses consist of amortization of intangibles and debt charges, including debt issuance costs, discounts, etc.

Adjusted EBITDA Is calculated utilizing the same calculation as described above in arriving at EBITDA further adjusted by:
(i) non-controlling stockholder compensation, which generally consists of non-cash stock option expense; (ii) successful acquisition costs, which consist of transaction costs (legal, accounting, due diligences, etc.) incurred in connection with the successful acquisition of a business expensed during the period in compliance with ASC 805; (iii) increases or decreases in supplemental put charges, which reflect the estimated potential liability due to our manager that requires us to acquire their Allocation Interests in the Company at a price based on a percentage of the fair value in our businesses over their original basis plus a hurdle rate. Essentially, when the fair value of our businesses increases we will incur additional supplemental put charges and vice versa when the fair value of our businesses decreases; (iv) management fees, which reflect fees due quarterly to our manager in connection with our Management Services Agreement (MSA); (v) impairment charges, which reflect write downs to goodwill or other intangible assets and (vi) gains or losses recorded in connection with the sale of fixed assets.

We believe that *EBITDA* and *Adjusted EBITDA* provide useful information to investors and reflect important financial measures as they exclude the effects of items which reflect the impact of long-term investment decisions, rather than the performance of near term operations. When compared to net income (loss) these financial measures are limited in that they do not reflect the periodic costs of certain capital assets used in generating revenues of our businesses or the non-cash charges associated with impairments. This presentation also allows investors to view the performance of our businesses in a manner similar to the methods used by us and the management of our businesses, provides additional insight into our operating results and provides a measure for evaluating targeted businesses for acquisition.

We believe these measurements are also useful in measuring our ability to service debt and other payment obligations. *EBITDA* and *Adjusted EBITDA* are not meant to be a substitute for GAAP, and may be different from or otherwise inconsistent with non-GAAP financial measures used by other companies.

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The following table reconciles *EBITDA* and *Adjusted EBITDA* to net income (loss), which we consider to be the most comparable GAAP financial measure (*in thousands*):

Adjusted EBITDA**Nine months ended September 30, 2012**

	Consolidated	Corporate	Advanced Circuits	American Furniture	Arnold Magnetics	CamelBak	ERGObaby	Fox	Liberty	Tridien	Consolidated
Income (loss) from continuing operations	\$ 11,178	\$ (14,055)	\$ 9,410	\$ (2,413)	\$ (4,605)	\$ 6,159	\$ 1,668	\$ 12,425	\$ 477	\$ 2,112	\$ 11,178
Adjusted for:											
Provision (benefit) for income taxes	17,119	(65)	4,869		(1,779)	4,678	1,178	7,130	247	861	17,119
Interest expense, net	19,609	19,561	(1)	6	(4)	11	25	11			19,609
Intercompany interest		(29,289)	3,778	1,219	4,389	9,932	4,765	1,815	3,336	55	
Depreciation and amortization	38,108	(501)	3,990	221	7,667	10,236	3,466	5,789	5,463	1,777	38,108
EBITDA	86,014	(24,349)	22,046	(967)	5,668	31,016	11,102	27,170	9,523	4,805	86,014
(Gain) loss on sale of fixed assets	281			48	2			250	(19)		281
Non-controlling shareholder compensation	3,250		18	163	35	682	333	1,733	218	68	3,250
Acquisition expenses	5,211	368	366		4,477						5,211
Supplemental put expense	6,391	6,391									6,391
Management fees	13,294	10,906	375		250	375	375	375	375	263	13,294
Adjusted EBITDA (a)	\$ 114,441	\$ (6,684)	\$ 22,805	\$ (756)	\$ 10,432	\$ 32,073	\$ 11,810	\$ 29,528	\$ 10,097	\$ 5,136	\$ 114,441

Adjusted EBITDA**Nine months ended September 30, 2011**

	Consolidated	Corporate	Advanced Circuits	American Furniture	Arnold Magnetics	CamelBak	ERGObaby	Fox	Liberty	Tridien	Consolidated
Income (loss) from continuing operations	\$ 389	\$ (11,487)	\$ 10,280	\$ (11,086)		\$ (3,330)	\$ 2,109	\$ 11,772	\$ (86)	\$ 2,217	\$ 389

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Adjusted for:

Provision (benefit) for income taxes	9,380	(61)	5,494	(3,174)	(2,024)	1,306	6,272	12	1,555	9,380
Interest expense, net	6,101	6,029	(2)	18	2	43	11			6,101
Intercompany interest		(15,893)	4,547	1,758	1,310	3,494	1,353	3,224	207	
Depreciation and amortization	23,240	360	3,658	2,663	2,630	2,060	5,052	5,000	1,817	23,240
EBITDA	39,110	(21,052)	23,977	(9,821)	(1,412)	9,012	24,460	8,150	5,796	39,110

(Gain) loss on sale of fixed assets	72			(12)		15	61	8		72
Non-controlling shareholder compensation	351	(1,175)	8	162		308	746	195	107	351
Impairment charges	7,700			7,700						7,700
Acquisition expenses	4,374				4,374					4,374
Decrease in earnout probability	(177)					(177)				(177)
Supplemental put expense	6,095	6,095								6,095
Management fees	11,707	9,769	375	125	51	375	375	375	262	11,707

Adjusted EBITDA (a)(b)	\$ 69,232	\$ (6,363)	\$ 24,360	\$ (1,846)	\$ 3,013	\$ 9,533	\$ 25,642	\$ 8,728	\$ 6,165	\$ 69,232
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- (a) As a result of the sale of our HALO subsidiary in May 2012, Adjusted EBITDA does not include EBITDA from HALO from the period January 1, 2012 through April 30, 2012 of \$2.2 million and for the period of January 1, 2011 through September 30, 2011 of \$7.8 million.
- (b) As a result of the sale of our Staffmark subsidiary in October 2011, Adjusted EBITDA does not include EBITDA from Staffmark from the period January 1, 2011 through September 30, 2011 of \$23.6 million.

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The table below details cash receipts and payments that are not reflected on our income statement in order to provide an additional measure of management's estimate of CAD. CAD is a non-GAAP measure that we believe provides additional information to evaluate our ability to make anticipated quarterly distributions. It is not necessarily comparable with similar measures provided by other entities. We believe that CAD, together with future distributions and cash available from our businesses (net of reserves) will be sufficient to meet our anticipated distributions over the next twelve months. The table below reconciles CAD to net income and to cash flow provided by operating activities, which we consider to be the most directly comparable financial measure calculated and presented in accordance with GAAP.

<i>(in thousands)</i>	Nine Months Ended September 30, 2012 (unaudited)	Nine Months Ended September 30, 2011 (unaudited)
Net income	\$ 9,546	\$ 14,169
Adjustment to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	37,873	33,353
Impairment expense		7,700
Supplemental put expense	6,391	6,095
Amortization of original issue discount	1,951	
Noncontrolling interests and noncontrolling stockholders charges	3,250	2,210
Amortization of debt issuance costs	1,326	1,543
Unrealized loss on interest rate swap	2,108	
Deferred taxes	(2,315)	(5,687)
Other	1,399	1,036
Changes in operating assets and liabilities	(40,149)	(2,622)
Net cash provided by (used in) operating activities	21,380	57,797
Plus:		
Unused fee on revolving credit facility (1)	1,984	2,041
Successful acquisition expense (2)	5,211	4,197
HALO sale related expenses (3)	1,976	
Changes in operating assets and liabilities	40,149	2,622
Less:		
Changes in operating assets and liabilities		
Other	597	930
Maintenance capital expenditures: (4)		
Compass Group Diversified Holdings LLC		
Advanced Circuits	470	1,570
American Furniture	(157)	(35)
Arnold	1,368	
CamelBak	654	418
ERGObaby	463	736
Fox	3,252	443
Halo (divested May 2012)	320	888
Liberty	286	253
Staffmark (divested October 2011)		1,877
Tridien	620	1,317
Estimated cash flow available for distribution and reinvestment	\$ 62,827	\$ 58,260
Distribution paid in April 2012/2011	\$ (17,388)	\$ (16,821)
Distribution paid in July 2012/2011	(17,388)	(16,821)
Distribution paid in October 2012/2011	(17,388)	(17,388)

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\$ (52,164) \$ (51,030)

- (1) Represents the commitment fee on the unused portion of our Prior Revolving Credit Facility and Revolving Credit Facility.
- (2) Represents successful acquisition transaction costs.
- (3) Represents transaction costs incurred related to the sale of HALO, net of the related income tax benefit.
- (4) Represents maintenance capital expenditures that were funded from operating cash flow, net of proceeds from sales of property, plant and equipment, and excludes growth capital expenditures of approximately \$2.1 million and \$7.6 million incurred during the nine months ended September 30, 2012 and 2011, respectively.

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Cash flows of certain of our businesses are seasonal in nature. Cash flows from American Furniture are typically highest in the months of January through April coinciding with income tax refunds. Revenue and earnings from Fox are typically highest in the third quarter, coinciding with the delivery of product for the new bike year. Earnings from Liberty are typically lowest in the second quarter due to lower demand for safes at the onset of summer. Earnings from CamelBak are typically higher in the spring and summer months as this corresponds with warmer weather in the Northern Hemisphere and an increase in hydration related activities.

Related Party Transactions and Certain Transactions Involving our Businesses

Fox Debt Recapitalization

On June 18, 2012, we entered into an amendment to our inter-company loan agreement (the *Amendment*) with Fox (the *Loan Agreement*). The Loan Agreement was amended to (i) provide for term loan borrowings of \$60 million and an increase to the revolving loan commitment of \$2.0 million and to permit the proceeds thereof to fund cash distributions totaling \$67.0 million by Fox to us and to its non-controlling shareholders, (ii) extend the maturity dates of the term loans under the Loan Agreement, and (iii) modify borrowing rates under the Loan Agreement. Our share of the cash distribution was approximately \$50.7 million with approximately \$16.3 million being distributed to Fox's non-controlling shareholders. All other material terms and conditions of the Loan Agreement were unchanged. 44,028 stock options were exercised at the time of the distribution. We purchased 33,142 shares of Fox at fair value from non-controlling shareholders at the exercise date.

Purchase of Tridien Stock

On August 28, 2012 we purchased shares on stock of Anodyne from a group of Tridien's non-controlling shareholders for an aggregate purchase price of approximately \$1.9 million. As a result of this transaction our ownership interest in Tridien increased to 83.2% on a primary basis and 68.8% on a fully diluted basis.

Contractual Obligations and Off-Balance Sheet Arrangements

We have no special purpose entities or off-balance sheet arrangements, other than operating leases entered into in the ordinary course of business.

Long-term contractual obligations, except for our long-term debt obligations, are generally not recognized in our consolidated balance sheet. Non-cancelable purchase obligations are obligations we incur during the normal course of business, based on projected needs.

The table below summarizes the payment schedule of our contractual obligations at September 30, 2012:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations (a)	\$ 370,686	\$ 21,523	\$ 42,625	\$ 42,124	\$ 264,414
Capital lease obligations	339	192	147		
Operating lease obligations (b)	68,377	11,806	21,914	15,452	19,205
Purchase obligations (c)	229,768	153,101	38,509	38,158	
Supplemental put obligation (d)	37,005	5,007	539	2,246	
Total	\$ 706,172	\$ 191,629	\$ 103,734	\$ 97,980	\$ 283,619

- (a) Reflects commitment fees and letter of credit fees under our Revolving Credit Facility and amounts due, together with interest on our Term Loan Facility.
- (b) Reflects various operating leases for office space, manufacturing facilities and equipment from third parties with various lease terms running from one to fourteen years.
- (c) Reflects non-cancelable commitments as of September 30, 2012, including: (i) shareholder distributions of \$69.6 million; (ii) management fees of \$17.6 million per year over the next five years, and (iii) other obligations including amounts due under employment agreements. Distributions to our shareholders are approved by our Board of Directors each quarter. The amount ultimately approved as future quarterly

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distributions may differ from the amount included in this schedule.

- (d) The supplemental put obligation represents the estimated long term liability, accrued as if our management services agreement with CGM had been terminated. This agreement has not been terminated and there is no basis upon which to determine a date in the future, if any, that the estimated gain on sale portion will be paid. The Manager can elect to receive the positive contribution-based profit allocation payment for each of our business acquisitions during the 30-day period following the fifth anniversary of the date upon which we acquired a controlling interest in that business. See Liquidity and Capital Resources.

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Critical Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates under different assumptions and judgments and uncertainties, and potentially could result in materially different results under different conditions. These critical accounting estimates are reviewed periodically by our independent auditors and the audit committee of our board of directors.

2012 Annual goodwill impairment testing

Goodwill represents the excess amount of the purchase price over the fair value of the assets acquired. We are required to perform impairment reviews of goodwill balances at each of our Reporting Units (RU) at least annually and more frequently in certain circumstances. Each of our businesses represents a RU, except at Arnold, which comprises three reporting units. Each of our RU are subject to impairment review at March 31, 2012, which represents our annual date for impairment testing, with the exception of American Furniture. The balance of American Furniture's goodwill was completely written off in 2011.

The Financial Accounting Standards Board (FASB) issued an accounting Standards Update 2011-08 (ASU) in September 2011 that permits companies to make a qualitative assessment of whether it is more likely than not that a RU fair value is less than its carrying amount before applying the two-step goodwill impairment test. If a company concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount it is not required to perform the two-step impairment test for that reporting unit. This ASU is effective for fiscal years beginning after December 15, 2011. At March 31, 2012 we elected to use the qualitative assessment alternative to test goodwill for impairment for each of our RU that maintain a goodwill carrying value.

As prescribed by the ASU, factors to consider when making the qualitative assessment prior to performing Step 1 of the goodwill impairment test are as follows:

Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets;

Industry and market considerations such as deterioration in the environment in which an entity operates, an increased competitive environment, a decline (both absolute and relative to its peers) in market-dependent multiples or metrics, a change in the market for an entity's products or services, or a regulatory or political development;

Cost factors, such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;

Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;

Other relevant entity-specific events such as litigation, contemplation of bankruptcy, or changes in management, key personnel, strategy, or customers;

Events affecting a RU such as change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all or a portion, of a RU, the testing for recoverability of a significant asset group within a reporting unit, or a recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit; and

Sustained decrease (both absolute and relative to its peers) in share price, if applicable.

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In addition to considering the above factors we performed the following procedures as of March 31, 2012 for each of our RU;

Compared and assessed trailing twelve month (TTM) net sales as of March 31, 2012 to TTM nets sales as of March 31, 2012:

Compared and assessed TTM operating income as of March 31, 2012 to TTM operating income as of March 31, 2011;

Compared and assessed TTM Adjusted EBITDA as of March 31, 2012 to Adjusted EBITDA as of March 31, 2011;

Compared and assessed Adjusted EBITDA for the year-ended December 31, 2011 to budget;

Compared and assessed Adjusted EBITDA for the three-months ended March 31, 2012 to budget;

Compared the fair value of each of our RU to its carrying amount using the same metrics as those used in determining the value of the supplemental put as of March, 31 2012 and concluded that in each case the fair value of the RU was in excess of its carrying amount; and

Performed market capitalization reconciliation for CODI and determined that CODI s public market cap was significantly in excess of the fair value of its consolidated equity (derived from the supplemental put analysis prepared as of March 31, 2012).

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Based on our qualitative assessment as outlined above we believe that it is not more likely than not that the fair value of each of our RU is less than its carrying amount at March 31, 2012.

Recent Accounting Pronouncements

Refer to footnote C to our condensed consolidated financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk required by this item have not changed materially from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the SEC on March 7, 2012. For a discussion of our exposure to market risk, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

As required by Exchange Act Rule 13a-15(b), Holdings' Regular Trustees and the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, conducted an evaluation of the effectiveness of Holdings' and the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2012. Based on that evaluation, the Regular Trustees of Holdings' and the Chief Executive Officer and Chief Financial Officer of the Company concluded that Holdings' and the Company's disclosure controls and procedures were effective as of September 30, 2012.

In the first quarter of 2012, the Company acquired Arnold Magnetics (see Note D- Acquisition of Business to our Condensed Consolidated Financial Statements), which represented 16.2% of our total assets as of September 30, 2012. The Company is in the process of fully integrating Arnold into its internal controls over financial reporting and, in reliance on interpretive guidance issued by the SEC staff, disclosure of changes in internal control over financial reporting related to Arnold has been excluded. Other than as described above, in connection with the evaluation required by Exchange Act Rule 13a-15(d), Holdings' Regular Trustees and the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, concluded that no changes in Holdings' or the Company's internal control over financial reporting occurred during the third quarter of 2012 that have materially affected, or are reasonably likely to materially affect, Holdings' and the Company's internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Legal proceedings associated with the Company's and Holdings' business together with legal proceedings for the businesses have not changed materially from those disclosed in Part I, Item 3 of our 2011 Annual Report on Form 10-K as filed with the SEC on March 7, 2012.

ITEM 1A. RISK FACTORS

Except for the additional Risk Factor included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, as filed with the SEC on May 9, 2012 for Arnold Magnetics, acquired on March 5, 2012, risk factors and uncertainties associated with the Company's and Holdings' business have not changed materially from those disclosed in Part I, Item 1A of our 2011 Annual Report on Form 10-K as filed with the SEC on March 7, 2012.

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ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPASS DIVERSIFIED HOLDINGS

By: /s/ James J. Bottiglieri

James J. Bottiglieri
Regular Trustee

Date: November 7, 2012

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

By: /s/ James J. Bottiglieri

James J. Bottiglieri
Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: November 7, 2012

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EXHIBIT INDEX

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.