

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

Form 10-Q

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

For the quarterly period ended September 30, 2019

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)

301 Riverside Avenue, Second Floor, Westport, CT 06880  
(203) 221-1703

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Shares representing beneficial interests in Compass Diversified Holdings	CODI	New York Stock Exchange
Series A Preferred Shares representing Series A Trust Preferred Interest in Compass Diversified Holdings	CODI PR A	New York Stock Exchange
Series B Preferred Shares representing Series B Trust Preferred Interest in Compass Diversified Holdings	CODI PR B	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 28, 2019, there were 59,900,000 Trust common shares of Compass Diversified Holdings outstanding.

**COMPASS DIVERSIFIED HOLDINGS**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the period ended September 30, 2019**

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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;
- the "Company" refer to Compass Group Diversified Holdings LLC;
- "businesses," "operating segments," "subsidiaries" and "reporting units" refer to, collectively, the businesses controlled by the Company;
- the "Manager" refer to Compass Group Management LLC ("CGM");
- the "Trust Agreement" refer to the Second Amended and Restated Trust Agreement of the Trust dated as of December 6, 2016;
- the "2014 Credit Facility" refer to the credit agreement, as amended, entered into on June 14, 2014 with a group of lenders led by Bank of America N.A. as administrative agent, as amended from time to time, which provides for a Revolving Credit Facility and a Term Loan;
- the "2018 Credit Facility" refer to the amended and restated credit agreement entered into on April 18, 2018 among the Company, the Lenders from time to time party thereto (the "Lenders"), Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer (the "agent") and other agents party thereto.
- the "2018 Revolving Credit Facility" refers to the \$600 million in revolving loans, swing line loans and letters of credit provided by the 2018 Credit Facility that matures in 2023;
- the "2018 Term Loan" refer to the \$500 million term loan provided by the 2018 Credit Facility that matures in April 2025;
- the "LLC Agreement" refer to the fifth amended and restated operating agreement of the Company dated as of December 6, 2016; and
- "we," "us" and "our" refer to the Trust, the Company and the businesses together.

## 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," "may," or other words that convey 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 and profit allocation 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
- 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.

**PART I  
FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**COMPASS DIVERSIFIED HOLDINGS  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2019	December 31, 2018
<i>(in thousands)</i>	<i>(Unaudited)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 285,838	\$ 48,771
Accounts receivable, net	221,423	205,545
Inventories	332,221	307,437
Prepaid expenses and other current assets	41,975	29,670
Current assets of discontinued operations	—	89,762
Total current assets	881,457	681,185
Property, plant and equipment, net	142,291	146,601
Goodwill	438,019	471,115
Intangible assets, net	575,354	615,592
Other non-current assets	97,099	8,378
Non-current assets of discontinued operations	—	449,464
<b>Total assets</b>	\$ 2,134,220	\$ 2,372,335
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 87,753	\$ 77,169
Accrued expenses	123,207	106,612
Due to related party	8,142	11,093
Current portion, long-term debt	5,000	5,000
Other current liabilities	30,648	6,912
Current liabilities of discontinued operations	—	52,494
Total current liabilities	254,750	259,280
Deferred income taxes	31,275	33,984
Long-term debt	680,513	1,098,871
Other non-current liabilities	87,427	12,615
Non-current liabilities of discontinued operations	—	48,243
<b>Total liabilities</b>	1,053,965	1,452,993
Commitments and contingencies		
<b>Stockholders' equity</b>		
Trust preferred shares, 50,000 authorized; 8,000 shares issued and outstanding at September 30, 2019 and December 31, 2018		
Series A preferred shares, no par value; 4,000 shares issued and outstanding at September 30, 2019 and December 31, 2018	96,417	96,417
Series B preferred shares, no par value; 4,000 shares issued and outstanding at September 30, 2019 and December 31, 2018	96,504	96,504
Trust common shares, no par value, 500,000 authorized; 59,900 shares issued and outstanding at September 30, 2019 and December 31, 2018	924,680	924,680
Accumulated other comprehensive loss	(6,063)	(8,776)
Accumulated deficit	(78,728)	(249,453)
Total stockholders' equity attributable to Holdings	1,032,810	859,372
Noncontrolling interest	47,445	39,922
Noncontrolling interest of discontinued operations	—	20,048
<b>Total stockholders' equity</b>	1,080,255	919,342
<b>Total liabilities and stockholders' equity</b>	\$ 2,134,220	\$ 2,372,335

See notes to condensed consolidated financial statements.

**COMPASS DIVERSIFIED HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

<i>(in thousands, except per share data)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net revenues	\$ 388,313	\$ 360,283	\$ 1,063,254	\$ 986,402
Cost of revenues	251,778	236,286	684,601	640,039
<b>Gross profit</b>	<b>136,535</b>	<b>123,997</b>	<b>378,653</b>	<b>346,363</b>
Operating expenses:				
Selling, general and administrative expense	82,027	79,577	243,736	241,253
Management fees	8,874	10,768	28,352	32,204
Amortization expense	13,520	12,788	40,632	35,533
Impairment expense	33,381	—	33,381	—
<b>Operating income (loss)</b>	<b>(1,267)</b>	<b>20,864</b>	<b>32,552</b>	<b>37,373</b>
Other income (expense):				
Interest expense, net	(11,525)	(15,635)	(48,424)	(35,227)
Loss on sale of securities (refer to Note C)	(4,893)	—	(10,193)	—
Amortization of debt issuance costs	(770)	(927)	(2,625)	(2,978)
Loss on debt extinguishment	(5,038)	—	(5,038)	(744)
Other income (expense), net	(689)	511	(1,213)	(2,285)
<b>Income (loss) from continuing operations before income taxes</b>	<b>(24,182)</b>	<b>4,813</b>	<b>(34,941)</b>	<b>(3,861)</b>
Provision for income taxes	4,400	5,470	10,375	7,557
<b>Income (loss) from continuing operations</b>	<b>(28,582)</b>	<b>(657)</b>	<b>(45,316)</b>	<b>(11,418)</b>
Income from discontinued operations, net of income tax	—	6,423	16,901	14,931
Gain on sale of discontinued operations	2,039	—	330,203	1,165
<b>Net income (loss)</b>	<b>(26,543)</b>	<b>5,766</b>	<b>301,788</b>	<b>4,678</b>
Less: Net income from continuing operations attributable to noncontrolling interest	1,242	688	3,997	2,475
Less: Net income (loss) from discontinued operations attributable to noncontrolling interest	—	352	(266)	726
<b>Net income (loss) attributable to Holdings</b>	<b>\$ (27,785)</b>	<b>\$ 4,726</b>	<b>\$ 298,057</b>	<b>\$ 1,477</b>
<b>Amounts attributable to Holdings</b>				
Income (loss) from continuing operations	\$ (29,824)	\$ (1,345)	\$ (49,313)	\$ (13,893)
Income from discontinued operations, net of income tax	—	6,071	17,167	14,205
Gain on sale of discontinued operations, net of income tax	2,039	—	330,203	1,165
Net income (loss) attributable to Holdings	<b>\$ (27,785)</b>	<b>\$ 4,726</b>	<b>\$ 298,057</b>	<b>\$ 1,477</b>
<b>Basic income (loss) per common share attributable to Holdings (refer to Note J)</b>				
Continuing operations	\$ (1.33)	\$ (0.16)	\$ (1.95)	\$ (0.45)
Discontinued operations	0.03	0.09	5.80	0.25
	<b>\$ (1.30)</b>	<b>\$ (0.07)</b>	<b>\$ 3.85</b>	<b>\$ (0.20)</b>
Basic weighted average number of shares of common shares outstanding	59,900	59,900	59,900	59,900
Cash distributions declared per Trust common share (refer to Note J)	\$ 0.36	\$ 0.36	\$ 1.08	\$ 1.08

See notes to condensed consolidated financial statements.

**COMPASS DIVERSIFIED HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited)

<i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Net income (loss)</b>	\$ (26,543)	\$ 5,766	\$ 301,788	\$ 4,678
Other comprehensive income (loss)				
Foreign currency translation adjustments	(861)	1,603	(608)	(2,424)
Foreign currency amounts reclassified from accumulated other comprehensive income (loss) that increase (decrease) net income:				
Disposition of Manitoba Harvest	—	—	4,791	—
Pension benefit liability, net	(690)	34	(1,470)	643
Other comprehensive income (loss)	(1,551)	1,637	2,713	(1,781)
Total comprehensive income (loss), net of tax	\$ (28,094)	\$ 7,403	\$ 304,501	\$ 2,897
Less: Net income attributable to noncontrolling interests	1,242	1,040	3,731	3,201
Less: Other comprehensive income (loss) attributable to noncontrolling interests	(67)	266	(97)	(462)
<b>Total comprehensive income (loss) attributable to Holdings, net of tax</b>	<b>\$ (29,269)</b>	<b>\$ 6,097</b>	<b>\$ 300,867</b>	<b>\$ 158</b>

See notes to condensed consolidated financial statements.

**COMPASS DIVERSIFIED HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(Unaudited)

(in thousands)

	Trust Preferred Shares		Trust Common Shares	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Stockholders' Equity Attributable to Holdings	Non-Controlling Interest	Non-Controlling Interest Attributable to Disc. Ops.	Total Stockholders' Equity
	Series A	Series B							
<b>Balance — July 1, 2018</b>	\$ 96,417	\$ 96,504	\$ 924,680	\$ (195,318)	\$ (5,991)	\$ 916,292	\$ 34,284	\$ 19,456	\$ 970,032
Net income	—	—	—	4,726	—	4,726	688	352	5,766
Total comprehensive income, net	—	—	—	—	1,637	1,637	—	—	1,637
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	2,529	—	2,529
Effect of subsidiary stock option exercise	—	—	—	—	—	—	6,772	—	6,772
Purchase of noncontrolling interest	—	—	—	—	—	—	(6,372)	—	(6,372)
Distributions paid - Trust Common Shares	—	—	—	(21,564)	—	(21,564)	—	—	(21,564)
Distributions paid - Trust Preferred Shares	—	—	—	(4,773)	—	(4,773)	—	—	(4,773)
<b>Balance — September 30, 2018</b>	<u>\$ 96,417</u>	<u>\$ 96,504</u>	<u>\$ 924,680</u>	<u>\$ (216,929)</u>	<u>\$ (4,354)</u>	<u>\$ 896,318</u>	<u>\$ 37,901</u>	<u>\$ 19,808</u>	<u>\$ 954,027</u>
<b>Balance — July 1, 2019</b>	\$ 96,417	\$ 96,504	\$ 924,680	\$ 17,715	\$ (4,512)	\$ 1,130,804	\$ 45,977	\$ —	\$ 1,176,781
Net income (loss)	—	—	—	(27,785)	—	(27,785)	1,242	—	(26,543)
Total comprehensive loss, net	—	—	—	—	(1,551)	(1,551)	—	—	(1,551)
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	936	—	936
Purchase of noncontrolling interest	—	—	—	—	—	—	(710)	—	(710)
Distributions paid - Allocation Interests	—	—	—	(43,313)	—	(43,313)	—	—	(43,313)
Distributions paid - Trust Common Shares	—	—	—	(21,564)	—	(21,564)	—	—	(21,564)
Distributions paid - Trust Preferred Shares	—	—	—	(3,781)	—	(3,781)	—	—	(3,781)
<b>Balance — September 30, 2019</b>	<u>\$ 96,417</u>	<u>\$ 96,504</u>	<u>\$ 924,680</u>	<u>\$ (78,728)</u>	<u>\$ (6,063)</u>	<u>\$ 1,032,810</u>	<u>\$ 47,445</u>	<u>\$ —</u>	<u>\$ 1,080,255</u>

See notes to condensed consolidated financial statements.



**COMPASS DIVERSIFIED HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(Unaudited)

(in thousands)

	Trust Preferred Shares		Trust Common Shares	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Stockholders' Equity Attributable to Holdings	Non-Controlling Interest	Non-Controlling Interest Attributable to Disc. Ops.	Total Stockholders' Equity
	Series A	Series B							
<b>Balance — January 1, 2018</b>	\$ 96,417	\$ —	\$ 924,680	\$ (145,316)	\$ (2,573)	\$ 873,208	\$ 33,709	\$ 19,082	\$ 925,999
Net income	—	—	—	1,477	—	1,477	2,475	726	4,678
Total comprehensive loss, net	—	—	—	—	(1,781)	(1,781)	—	—	(1,781)
Issuance of Trust preferred shares, net of offering costs	—	96,504	—	—	—	96,504	—	—	96,504
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	7,694	—	7,694
Effect of subsidiary stock option exercise	—	—	—	—	—	—	395	—	395
Purchase of noncontrolling interest	—	—	—	—	—	—	(6,372)	—	(6,372)
Distributions paid - Trust Common Shares	—	—	—	(64,692)	—	(64,692)	—	—	(64,692)
Distributions paid - Trust Preferred Shares	—	—	—	(8,398)	—	(8,398)	—	—	(8,398)
<b>Balance — September 30, 2018</b>	<u>\$ 96,417</u>	<u>\$ 96,504</u>	<u>\$ 924,680</u>	<u>\$ (216,929)</u>	<u>\$ (4,354)</u>	<u>\$ 896,318</u>	<u>\$ 37,901</u>	<u>\$ 19,808</u>	<u>\$ 954,027</u>
<b>Balance — January 1, 2019</b>	\$ 96,417	\$ 96,504	\$ 924,680	\$ (249,453)	\$ (8,776)	\$ 859,372	\$ 39,922	\$ 20,048	\$ 919,342
Net income (loss)	—	—	—	298,057	—	298,057	3,997	(266)	301,788
Total comprehensive income, net	—	—	—	—	2,713	2,713	—	—	2,713
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	4,265	1,939	6,204
Effect of subsidiary stock option exercise	—	—	—	—	—	—	41	—	41
Purchase of noncontrolling interest	—	—	—	—	—	—	(780)	—	(780)
Disposition of Manitoba Harvest	—	—	—	—	—	—	—	(10,799)	(10,799)
Disposition of Clean Earth	—	—	—	—	—	—	—	(10,922)	(10,922)
Distributions paid - Allocation Interests	—	—	—	(51,296)	—	(51,296)	—	—	(51,296)
Distributions paid - Trust Common Shares	—	—	—	(64,692)	—	(64,692)	—	—	(64,692)
Distributions paid - Trust Preferred Shares	—	—	—	(11,344)	—	(11,344)	—	—	(11,344)
<b>Balance — September 30, 2019</b>	<u>\$ 96,417</u>	<u>\$ 96,504</u>	<u>\$ 924,680</u>	<u>\$ (78,728)</u>	<u>\$ (6,063)</u>	<u>\$ 1,032,810</u>	<u>\$ 47,445</u>	<u>\$ —</u>	<u>\$ 1,080,255</u>

See notes to condensed consolidated financial statements.

**COMPASS DIVERSIFIED HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)

<i>(in thousands)</i>	Nine months ended September 30,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 301,788	\$ 4,678
Income from discontinued operations, net of income tax	16,901	14,931
Gain on sale of discontinued operations	330,203	1,165
Loss from continuing operations	(45,316)	(11,418)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	24,628	22,826
Amortization expense	40,632	42,860
Impairment expense	33,381	—
Amortization of debt issuance costs and original issue discount	3,022	3,403
Unrealized (gain) loss on interest rate swap	3,486	(4,649)
Noncontrolling stockholder stock based compensation	4,265	5,973
Provision for loss on receivables	2,539	481
Deferred taxes	(2,208)	(23)
Loss on debt extinguishment	5,038	744
Other	853	(431)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(19,187)	(28,181)
Inventories	(24,863)	(26,514)
Other current and non-current assets	(11,826)	(4,786)
Accounts payable and accrued expenses	27,278	35,805
Cash provided by operating activities - continuing operations	41,722	36,090
Cash (used in) provided by operating activities - discontinued operations	(10,138)	22,682
Cash provided by operating activities	31,584	58,772
<b>Cash flows from investing activities:</b>		
Acquisitions, net of cash acquired	—	(495,136)
Purchases of property and equipment	(21,964)	(34,690)
Payment of interest rate swap	(675)	(1,444)
Proceeds from sale of businesses	501,895	—
Other investing activities	1,673	(9)
Cash provided by (used in) investing activities - continuing operations	480,929	(531,279)
Cash provided by (used in) investing activities - discontinued operations	279,219	(63,426)
Cash provided by (used in) investing activities	760,148	(594,705)

**COMPASS DIVERSIFIED HOLDINGS**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

<i>(in thousands)</i>	Nine months ended September 30,	
	2019	2018
<b>Cash flows from financing activities:</b>		
Proceeds from the issuance of Trust preferred shares, net	—	96,504
Borrowings under credit facility	108,000	1,252,750
Repayments under credit facility	(533,500)	(1,125,473)
Issuance of senior notes	—	400,000
Distributions paid - common shares	(64,692)	(64,692)
Distributions paid - preferred shares	(11,344)	(8,398)
Distributions paid - allocation interests	(51,296)	—
Net proceeds provided by noncontrolling shareholders	41	395
Repurchases of subsidiary stock	(778)	(6,372)
Debt issuance costs	—	(14,887)
Other	(3,549)	1,461
Net cash (used in) provided by financing activities	(557,118)	531,288
Foreign currency impact on cash	(2,102)	916
Net increase (decrease) in cash and cash equivalents	232,512	(3,729)
Cash and cash equivalents — beginning of period <sup>(1)</sup>	53,326	39,885
Cash and cash equivalents — end of period	\$ 285,838	\$ 36,156

<sup>(1)</sup> Includes cash from discontinued operations of \$4.6 million at January 1, 2019 and \$4.2 million at January 1, 2018.

See notes to condensed consolidated financial statements.

**COMPASS DIVERSIFIED HOLDINGS**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**September 30, 2019**

**Note A - Presentation and Principles of Consolidation**

Compass Diversified Holdings, a Delaware statutory trust (the "Trust" or "Holdings") and Compass Group Diversified Holdings LLC, a Delaware limited liability company (the "Company"), were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. In accordance with the second amended and restated Trust Agreement, dated as of December 6, 2016 (as amended and restated, the "Trust Agreement"), the Trust is sole owner of 100% of the Trust Interests (as defined in the Company's fifth amended and restated operating agreement, dated as of December 6, 2016 (as amended and restated, 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 Company is the operating entity with a board of directors and other corporate governance responsibilities, similar to that of a Delaware corporation.

The Company is a controlling owner of eight businesses, or reportable operating segments, at September 30, 2019. The segments are as follows: 5.11 Acquisition Corp. ("5.11" or "5.11 Tactical"), Velocity Outdoor, Inc. (formerly Crosman Corp.) ("Velocity Outdoor" or "Velocity"), The Ergo Baby Carrier, Inc. ("Ergobaby"), Liberty Safe and Security Products, Inc. ("Liberty Safe" or "Liberty"), Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits"), AMT Acquisition Corporation ("Arnold"), FFI Compass, Inc. ("Foam Fabricators" or "Foam") and The Sterno Group, LLC ("Sterno"). Refer to [Note E - "Operating Segment Data"](#) for further discussion of the operating segments. Compass Group Management LLC, a Delaware limited liability company ("CGM" or the "Manager"), manages the day to day operations of the Company and oversees the management and operations of our businesses pursuant to a Management Services Agreement ("MSA").

*Basis of Presentation*

The condensed consolidated financial statements for the three and nine month periods ended September 30, 2019 and September 30, 2018 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" or "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, 2018.

*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.

*Discontinued Operations*

During the first quarter of 2019, the Company completed the sale of Fresh Hemp Foods Ltd. ("Manitoba Harvest"). Additionally, during the second quarter of 2019, the Company completed the sale of Clean Earth Holdings, Inc. ("Clean Earth"). The results of operations of Manitoba Harvest and Clean Earth are reported as discontinued operations in the condensed consolidated statements of operations for the nine months ended September 30, 2019. Refer to [Note C - "Discontinued Operations"](#) for additional information. Unless otherwise indicated, the disclosures accompanying the condensed consolidated financial statements reflect the Company's continuing operations.

*Seasonality*

Earnings of certain of our operating segments are seasonal in nature due to various recurring events, holidays and seasonal weather patterns, as well as the timing of our acquisitions during a given year. Historically, the third and fourth quarter produce the highest net sales during our fiscal year.

## Recently Adopted Accounting Pronouncements

### *Leases*

As of January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02, Leases ("Topic 842"). The new standard requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. The standard update offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the Financial Accounting Standards Board ("FASB") issued two updates to Topic 842 to clarify how to apply certain aspects of the new lease standard, and to give entities another option for transition and to provide lessors with a practical expedient to reduce the cost and complexity of implementing the new standard. The transition option allows entities to not apply the new lease standard in the comparative periods presented in the financial statements in the year of adoption. The Company adopted the new standard using the optional transition method. The reported results for reporting periods after January 1, 2019 are presented under the new lease guidance while prior period amounts were prepared under the previous lease guidance.

The new standard provides a number of optional practical expedients in transition. The Company elected to use the package of practical expedients that allows us to not reassess: (i) whether any expired or existing contracts are or contain leases, (ii) lease classification for any expired or existing leases and (iii) initial direct costs for any expired or existing leases. We additionally elected to use the practical expedient that allows lessees to treat the lease and non-lease components of leases as a single lease component and the practical expedient pertaining to land easements. In addition, the new standard provides for an accounting election that permits a lessee to elect not to apply the recognition requirements of Topic 842 to short-term leases by class of underlying asset. The Company adopted this accounting election for all classes of assets.

The Company has performed an assessment of the impact of the adoption of Topic 842 on the Company's consolidated financial position and results of operations for the Company's leases, which consist of manufacturing facilities, warehouses, office facilities, retail stores, equipment and vehicle leases. The adoption of the new lease standard on January 1, 2019 resulted in the recognition of right-of-use assets of approximately \$90.6 million and lease liabilities for operating leases of approximately \$97.4 million on our Consolidated Balance Sheets, with no material impact to its Consolidated Statements of Operations or Consolidated Statement of Cash Flows. We implemented processes and a lease accounting system to ensure adequate internal controls were in place to assess our leasing arrangements and enable proper accounting and reporting of financial information upon adoption. No cumulative effect adjustment was recognized as the amount was not material. Refer to "[Note O - Commitments and Contingencies](#)" for additional information regarding the Company's adoption of Topic 842.

## Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses, which will require companies to present assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectibility. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

## **Note B — Acquisitions**

### ***Acquisition of Foam Fabricators***

On February 15, 2018, pursuant to an agreement entered into on January 18, 2018, the Company, through a wholly owned subsidiary, FFI Compass, Inc. ("Buyer"), entered into a Stock Purchase Agreement (the "Purchase Agreement") with Warren F. Florkiewicz ("Seller") pursuant to which Buyer acquired all of the issued and outstanding capital stock of Foam Fabricators, Inc., a Delaware corporation ("Foam Fabricators"). Foam Fabricators is a leading designer and manufacturer of custom molded protective foam solutions and original equipment manufacturer ("OEM") components made from expanded polymers such as expanded polystyrene (EPS) and expanded polypropylene (EPP). Founded in 1957 and headquartered in Scottsdale, Arizona, it operates 13 molding and fabricating facilities across North America and provides products to a variety of end-markets, including appliances and electronics, pharmaceuticals, health and wellness, automotive, building and other products.

The Company made loans to, and purchased a 100% controlling interest in Foam Fabricators. The final purchase price, after the working capital settlement and net of transaction costs, was approximately \$253.4 million. The Company funded the acquisition through a draw on the 2014 Revolving Credit Facility. The transaction was accounted for as a business combination. CGM acted as an advisor to the Company in the acquisition and provided integration services during the first year of the Company's ownership. CGM received integration service fees of \$2.25 million payable over a twelve month period as services were rendered. The Company incurred \$1.6 million of transaction costs in conjunction with the Foam Fabricators acquisition, which was included in selling, general and administrative expense in the consolidated results of operations in the quarter ended March 31, 2018. The results of operations of Foam Fabricators have been included in the consolidated results of operations since the date of acquisition. Foam Fabricator's results of operations are reported as a separate operating segment.

The allocation of the purchase price, which was finalized during the fourth quarter of 2018, was based upon management's estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates were based on, but not limited to, expected future revenue and cash flows, expected future growth rates and estimated discount rates. Current and noncurrent assets and current and other liabilities were estimated at their historical carrying values. Property, plant and equipment was valued through a purchase price appraisal and will be depreciated on a straight-line basis over the respective remaining useful lives. Goodwill was calculated as the excess of the consideration transferred over the fair value of the identifiable net assets and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships, as well as expected future synergies. The tradename was valued at \$4.2 million using a relief from royalty methodology, in which an asset is valuable to the extent that the ownership of the asset relieves the company from the obligation of paying royalties for the benefits generated by the asset. The customer relationships intangible asset was valued at \$114.1 million using an excess earnings methodology, in which an asset is valuable to the extent it enables its owners to earn a return in excess of the required returns on the other assets utilized in the business. The customer relationships intangible asset was derived using a risk adjusted discount rate.

#### **Acquisition of Rimports**

On February 26, 2018, the Company's Sterno subsidiary acquired all of the issued and outstanding capital stock of Rimports, Inc., a Utah corporation ("Rimports"), pursuant to a Stock Purchase Agreement, dated January 23, 2018, by and among Sterno and Jeffery W. Palmer, individually and in his capacity as Seller Representative, the Jeffery Wayne Palmer Dynasty Trust dated December 26, 2011, the Angela Marie Palmer Irrevocable Trust dated December 26, 2011, the Angela Marie Palmer Charitable Lead Trust, the Fidelity Investments Charitable Gift Fund, the TAK Irrevocable Trust dated June 7, 2012, and the SAK Irrevocable Trust dated June 7, 2012. Headquartered in Provo, Utah, Rimports is a manufacturer and distributor of branded and private label scented wickless candle products used for home décor and fragrance. Rimports offers an extensive line of wax warmers, scented wax cubes, essential oils and diffusers, and other home fragrance systems, through the mass retailer channel.

Sterno purchased a 100% controlling interest in Rimports. The purchase price, after the working capital settlement and net of transaction costs, was approximately \$154.4 million. The purchase price of Rimports included a potential earn-out of up to \$25 million contingent on the attainment of certain future performance criteria of Rimports for the twelve-month period from May 1, 2017 to April 30, 2018 and the fourteen month period from March 1, 2018 to April 30, 2019. The fair value of the contingent consideration was estimated at \$4.8 million. Sterno funded the acquisition through their intercompany credit facility with the Company. The transaction was accounted for as a business combination. Sterno incurred \$0.6 million of transaction costs in conjunction with the acquisition of Rimports, which was included in selling, general and administrative expense in the consolidated results of operations in the quarter ended March 31, 2018. The results of operations of Rimports have been included in the consolidated results of operations since the date of acquisition. Rimport's results of operations are included in the Sterno operating segment.

The allocation of the purchase price, which was finalized during the fourth quarter of 2018, was based upon management's estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates were based on, but not limited to, expected future revenue and cash flows, expected future growth rates and estimated discount rates. Current and noncurrent assets and current and other liabilities were estimated at their historical carrying values. Property, plant and equipment was valued through a purchase price appraisal and will be depreciated on a straight-line basis over the respective remaining useful lives. Goodwill was calculated as the excess of the consideration transferred over the fair value of the identifiable net assets and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships, as well as expected future synergies. The tradename was valued at \$6.6 million using a relief from royalty methodology, in which an asset is valuable to the extent that the ownership of the asset

relieves the company from the obligation of paying royalties for the benefits generated by the asset. The customer relationships intangible asset was valued at \$79.1 million using an excess earnings methodology, in which an asset is valuable to the extent it enables its owners to earn a return in excess of the required returns on the other assets utilized in the business. The customer relationships intangible asset was derived using a risk adjusted discount rate.

#### **Unaudited pro forma information**

The following unaudited pro forma data for the nine months ended September 30, 2018 gives effect to the acquisition of Foam Fabricators and Sterno's acquisition of Rimports, as described above, and the disposition of Manitoba Harvest and Clean Earth, as if these transactions had been completed as of January 1, 2018. 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.

<i>(in thousands)</i>	<b>Nine months ended September 30, 2018</b>	
Net revenues	\$	1,026,230
Gross profit		356,782
Operating income		40,481
Net loss		(13,055)
Net loss attributable to Holdings		(15,530)
Basic and fully diluted net loss per share attributable to Holdings	\$	(0.49)

#### **Other acquisitions**

##### Velocity Outdoor

*Ravin Crossbows* - On September 4, 2018, Velocity Outdoor (formerly Crosman Corp.) acquired all of the outstanding membership interests in Ravin Crossbows, LLC ("Ravin" or "Ravin Crossbows") for a purchase price of approximately \$98.0 million, net of transaction costs, plus a potential earn-out of up to \$25.0 million based on gross profit levels for the trailing twelve month period ending December 31, 2018. Velocity funded the acquisition and payment of related transaction costs through the issuance of an additional \$38.9 million in intercompany loans and the issuance of additional equity to the Company of \$60.6 million. Velocity recorded a purchase price allocation for Ravin comprised of \$67.5 million in intangible assets (\$14.1 million in finite lived trade name, \$42.6 million in technologies valued using an excess earnings methodology, and \$10.8 million in customer relationships), \$2.5 million in inventory step-up, and \$13.3 million in goodwill which is expected to be deductible for income tax purposes. The remainder of the purchase consideration was allocated to net assets acquired. The potential earn-out was valued at \$4.7 million as part of the purchase price allocation. Velocity incurred transaction costs of \$1.4 million related to the Ravin acquisition, which were recorded as selling, general and administrative costs in the accompanying statement of operations as of December 31, 2018. The purchase price allocation was finalized during the first quarter of 2019.

#### **Note C — Discontinued Operations**

##### **Sale of Clean Earth**

On May 8, 2019, the Company, as majority stockholder of CEHI Acquisition Corporation ("CEHI") and as Sellers' Representative, entered into a definitive Stock Purchase Agreement (the "Purchase Agreement") with Calrissian Holdings, LLC ("Buyer"), CEHI, the other holders of stock and options of CEHI and, as Buyer's guarantor, Harsco Corporation, pursuant to which Buyer would acquire all of the issued and outstanding securities of CEHI, the parent company of the operating entity, Clean Earth, Inc.

On June 28, 2019, Buyer completed the acquisition of all of the issued and outstanding securities of CEHI pursuant to the Purchase Agreement. The sale price for CEHI was based on an aggregate total enterprise value of \$625 million and is subject to customary working capital adjustments. After the allocation of the sale proceeds to CEHI non-controlling equity holders, the repayment of intercompany loans to the Company (including accrued interest) of \$224.6 million, and the payment of transaction expenses of approximately \$10.7 million, the Company received approximately \$327.3 million of total proceeds at closing related to our equity interests in CEHI. The Company recognized a gain on

the sale of CEHI of \$206.3 million in the second quarter of 2019. During the third quarter of 2019, the Company received the working capital settlement from the Buyer and recorded an additional \$2.2 million gain related to the sale of Clean Earth.

Summarized results of operations of Clean Earth for the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018 through the date of disposition are as follows (in thousands):

	Three months ended September 30, 2018	For the period January 1, 2019 through disposition	Nine months ended September 30, 2018
Net sales	\$ 71,116	\$ 132,737	\$ 199,579
Gross profit	18,610	39,678	56,589
Operating income	4,278	6,232	12,495
Income from continuing operations before income taxes	4,202	5,880	12,215
Benefit for income taxes	(2,627)	(11,607)	(2,247)
Income from discontinued operations <sup>(1)</sup>	\$ 6,829	\$ 17,487	\$ 14,462

<sup>(1)</sup> The results of operations for the periods from January 1, 2019 through the date of disposition, and the three and nine months ended September 30, 2018, each exclude \$10.2 million and \$4.5 million and \$12.2 million, respectively, of intercompany interest expense.

### **Sale of Manitoba Harvest**

On February 19, 2019, the Company, as majority shareholder of Manitoba Harvest and as Shareholder Representative, entered into a definitive agreement (the "Arrangement Agreement") with Tilray, Inc. ("Tilray"), the other shareholders of Manitoba Harvest and a wholly-owned subsidiary of Tilray, 1197879 B.C. Ltd. ("Tilray Subco"), to sell to Tilray, through Tilray Subco, all of the issued and outstanding securities of Manitoba Harvest.

On February 28, 2019, Tilray Subco completed the acquisition of all the issued and outstanding securities of Manitoba Harvest pursuant to the Arrangement Agreement. Subject to certain customary adjustments, the shareholders of Manitoba Harvest, including the Company, received or will receive the following from Tilray as consideration for their shares of Manitoba Harvest: (i) C\$150 million in cash to the holders of preferred shares of Manitoba Harvest and the holders of common shares of Manitoba Harvest ("Common Holders") and C\$127.5 million in shares of class 2 Common Stock of Tilray ("Tilray Common Stock") to the Common Holders on the closing date of the sale (the "Closing Date Consideration"), and (ii) C\$50 million in cash and C\$42.5 million in Tilray Common Stock to the Common Holders on the date that is six months after the closing date of the arrangement (the "Deferred Consideration"). The sale consideration also includes a potential earnout of up to C\$49 million in Tilray Common Stock to the Common Holders, if Manitoba Harvest achieves certain levels of U.S. branded gross sales of edible or topical products containing broad spectrum hemp extracts or cannabidiols prior to December 31, 2019.

The cash portion of the Closing Date Consideration was reduced by the amount of the net indebtedness (including accrued interest) of Manitoba Harvest on the closing date of C\$71.3 million (\$53.7 million) and transaction expenses of approximately C\$5.0 million. The Company's share of the net proceeds after accounting for the redemption of the noncontrolling shareholders and the payment of net indebtedness of Manitoba Harvest and transaction expenses was approximately \$124.2 million in cash proceeds and in Tilray Common Stock. We recorded a receivable of \$48.2 million as of March 31, 2019 related to the Deferred Consideration portion of the proceeds. The Company recognized a gain on the sale of Manitoba Harvest of \$121.7 million in the three months ended March 31, 2019. In August 2019, the Company received the Deferred Consideration related to the sale. The Company's portion of the Deferred Consideration totaled \$28.4 million in cash proceeds and \$19.6 million in Tilray Common Stock. No amount has been recorded related to the potential earnout as of September 30, 2019 based on an assessment of probability at the end of the quarter.

The Tilray Common Stock consideration was issued in reliance on the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") and pursuant to exemptions from applicable securities laws of any state of the United States, such that any shares of Tilray Common Stock received by the Common Holders were freely tradeable. The Company sold the Tilray Common Stock received as Closing Date Consideration during March 2019, recognizing a net loss of \$5.3 million in Other income/ (expense) during the quarter ended March 31,



2019. In August 2019, the Company sold the Tilray Common Stock received as part of the Deferred Consideration, recognizing a loss of \$4.9 million in Other income/ (expense) during the quarter ended September 30, 2019.

Summarized results of operations of Manitoba Harvest for the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018 through the date of disposition are as follows (in thousands):

	Three months ended September 30, 2018	For the period January 1, 2019 through disposition	Nine months ended September 30, 2018
Net revenues	\$ 17,300	\$ 10,024	\$ 53,169
Gross profit	7,097	4,874	23,545
Operating loss	(886)	(1,118)	(670)
Loss before income taxes	(896)	(1,127)	(694)
Benefit for income taxes	(490)	(541)	(1,163)
Income (loss) from discontinued operations <sup>(1)</sup>	\$ (406)	\$ (586)	\$ 469

<sup>(1)</sup> The results of operations for the periods from January 1, 2019 through the date of disposition and the three and nine months ended September 30, 2018 exclude \$1.0 million, \$1.3 million and \$3.8 million, respectively, of intercompany interest expense.

The following table presents summary balance sheet information of the Clean Earth and Manitoba Harvest businesses that is presented as discontinued operations as of December 31, 2018 (in thousands):

	December 31, 2018		
	Manitoba Harvest	Clean Earth	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,577	\$ 1,978	\$ 4,555
Accounts receivable, net	7,169	59,689	66,858
Inventories	11,436	—	11,436
Prepaid expenses and other current assets	773	6,140	6,913
Current assets of discontinued operations	\$ 21,955	\$ 67,807	\$ 89,762
Property, plant and equipment, net	18,157	62,060	80,217
Goodwill	37,777	144,778	182,555
Intangible assets, net	53,533	129,530	183,063
Other non-current assets	—	3,629	3,629
Non-current assets of discontinued operations	\$ 109,467	\$ 339,997	\$ 449,464
<b>Liabilities:</b>			
Accounts payable	4,259	26,135	30,394
Accrued expenses	4,313	16,063	20,376
Due to related party	350	—	350
Other current liabilities	507	867	1,374
Current liabilities of discontinued operations	\$ 9,429	\$ 43,065	\$ 52,494
Deferred income taxes	12,675	28,300	40,975
Other non-current liabilities	2,093	5,175	7,268
Non-current liabilities of discontinued operations	\$ 14,768	\$ 33,475	\$ 48,243
Noncontrolling interest of discontinued operations	\$ 11,160	\$ 8,888	\$ 20,048

#### Note D — Revenue

Effective January 1, 2018, the Company adopted the provisions of Revenue from Contracts with Customers, or ASC 606. The adoption of the new revenue guidance represents a change in accounting principle that will more closely align revenue recognition with the transfer of control of the Company's goods and services and will provide financial

statement readers with enhanced disclosures. In accordance with the new revenue guidance, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, and excludes any sales incentives or taxes collected from customers which are subsequently remitted to government authorities.

**Disaggregated Revenue - Revenue Streams and Timing of Revenue Recognition** - The Company disaggregates revenue by strategic business unit and by geography for each strategic business unit which are categories that depict how the nature, amount and uncertainty of revenue and cash flows are affected by economic factors. This disaggregation also represents how the Company evaluates its financial performance, as well as how the Company communicates its financial performance to the investors and other users of its financial statements. Each strategic business unit represents the Company's reportable segments and offers different products and services.

The following tables provide disaggregation of revenue by reportable segment geography for the three and nine months ended September 30, 2019 and 2018 (in thousands):

**Three months ended September 30, 2019**

	5.11	Ergo	Liberty	Velocity	ACI	Arnold	Foam	Sterno	Total
United States	\$ 77,783	\$ 6,505	\$ 24,061	\$ 42,126	\$ 21,897	\$ 18,227	\$ 25,833	\$ 105,260	\$ 321,692
Canada	1,897	906	668	1,981	—	153	—	4,145	9,750
Europe	7,504	6,951	—	1,420	—	9,758	—	447	26,080
Asia Pacific	2,429	8,820	—	239	—	1,678	—	1,565	14,731
Other international	8,440	136	—	881	—	1,079	5,471	53	16,060
	<u>\$ 98,053</u>	<u>\$ 23,318</u>	<u>\$ 24,729</u>	<u>\$ 46,647</u>	<u>\$ 21,897</u>	<u>\$ 30,895</u>	<u>\$ 31,304</u>	<u>\$ 111,470</u>	<u>\$ 388,313</u>

**Three months ended September 30, 2018**

	5.11	Ergo	Liberty	Velocity	ACI	Arnold	Foam	Sterno	Total
United States	\$ 62,085	\$ 8,190	\$ 17,263	\$ 29,862	\$ 23,424	\$ 18,202	\$ 28,378	\$ 110,274	\$ 297,678
Canada	1,465	697	609	2,062	—	264	—	2,934	8,031
Europe	6,871	7,962	—	1,231	—	9,390	—	248	25,702
Asia Pacific	3,919	7,176	—	375	—	1,311	—	110	12,891
Other international	9,002	235	—	759	—	724	4,959	302	15,981
	<u>\$ 83,342</u>	<u>\$ 24,260</u>	<u>\$ 17,872</u>	<u>\$ 34,289</u>	<u>\$ 23,424</u>	<u>\$ 29,891</u>	<u>\$ 33,337</u>	<u>\$ 113,868</u>	<u>\$ 360,283</u>

**Nine months ended September 30, 2019**

	5.11	Ergo	Liberty	Velocity	ACI	Arnold	Foam	Sterno	Total
United States	\$ 225,124	\$ 20,738	\$ 65,797	\$ 93,243	\$ 67,405	\$ 53,778	\$ 78,508	\$ 273,002	\$ 877,595
Canada	6,211	2,552	1,769	5,232	—	516	—	12,361	28,641
Europe	20,658	21,026	—	5,253	—	28,584	—	1,383	76,904
Asia Pacific	9,007	23,656	—	671	—	4,479	—	2,273	40,086
Other international	17,978	769	—	2,996	—	3,047	15,126	112	40,028
	<u>\$ 278,978</u>	<u>\$ 68,741</u>	<u>\$ 67,566</u>	<u>\$ 107,395</u>	<u>\$ 67,405</u>	<u>\$ 90,404</u>	<u>\$ 93,634</u>	<u>\$ 289,131</u>	<u>\$ 1,063,254</u>

**Nine months ended September 30, 2018**

	5.11	Ergo	Liberty	Velocity	ACI	Arnold	Foam	Sterno	Total
United States	\$ 192,382	\$ 25,790	\$ 60,126	\$ 80,629	\$ 68,454	\$ 54,417	\$ 70,604	\$ 255,054	\$ 807,456
Canada	5,938	2,277	1,615	5,118	—	978	—	9,750	25,676
Europe	23,334	21,795	—	4,377	—	29,065	—	1,210	79,781
Asia Pacific	12,344	19,713	—	978	—	3,803	—	481	37,319
Other international	18,024	801	—	3,164	—	2,223	11,384	574	36,170
	<u>\$ 252,022</u>	<u>\$ 70,376</u>	<u>\$ 61,741</u>	<u>\$ 94,266</u>	<u>\$ 68,454</u>	<u>\$ 90,486</u>	<u>\$ 81,988</u>	<u>\$ 267,069</u>	<u>\$ 986,402</u>

**Note E — Operating Segment Data**

At September 30, 2019, 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:

- 5.11 Tactical is a leading provider of purpose-built tactical apparel and gear for law enforcement, firefighters, EMS, and military special operations as well as outdoor and adventure enthusiasts. 5.11 is a brand known for innovation and authenticity, and works directly with end users to create purpose-built apparel and gear designed to enhance the safety, accuracy, speed and performance of tactical professionals and enthusiasts worldwide. Headquartered in Irvine, California, 5.11 operates sales offices and distribution centers globally, and 5.11 products are widely distributed in uniform stores, military exchanges, outdoor retail stores, its own retail stores and on 511tactical.com.
- Ergobaby is a designer, marketer and distributor of wearable baby carriers and accessories, blankets and swaddlers, nursing pillows, and related products. Ergobaby primarily sells its Ergobaby and Baby Tula branded products through brick-and-mortar retailers, national chain stores, online retailers, its own websites and distributors and derives more than 50% of its sales from outside of the United States. Ergobaby is headquartered in Los Angeles, California.
- Liberty Safe is a designer, manufacturer and marketer of premium home, gun and office safes in North America. From its over 300,000 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.
- Velocity Outdoor is a leading designer, manufacturer, and marketer of airguns, archery products, laser aiming devices and related accessories. Velocity Outdoor offers its products under the highly recognizable Crosman, Benjamin, Ravin, LaserMax and CenterPoint brands that are available through national retail chains, mass merchants, dealer and distributor networks. Velocity Outdoor is headquartered in Bloomfield, New York.
- Advanced Circuits is an electronic components manufacturing company that provides small-run, quick-turn and volume production rigid printed circuit boards. ACI manufactures and delivers custom printed circuit boards to customers primarily in North America. ACI is headquartered in Aurora, Colorado.
- Arnold is a global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets, including aerospace and defense, motorsport/automotive, oil and gas, medical, general industrial, electric utility, reprographics and advertising specialty markets. Arnold produces high performance permanent magnets (PMAG), precision foil products (Precision Thin Metals or "PTM"), and flexible magnets (Flexmag™) 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. Arnold is headquartered in Rochester, New York.
- Foam Fabricators is a designer and manufacturer of custom molded protective foam solutions and original equipment manufacturer components made from expanded polystyrene and expanded polypropylene. Foam Fabricators provides products to a variety of end markets, including appliances and electronics, pharmaceuticals, health and wellness, automotive, building and other products. Foam Fabricators is headquartered in Scottsdale, Arizona and operates 13 molding and fabricating facilities across North America.

- **Sterno** is a manufacturer and marketer of portable food warming fuel and creative table lighting solutions for the food service industry and flameless candles, outdoor lighting products, scented wax cubes and warmer products for consumers. Sterno's products include wick and gel chafing fuels, butane stoves and accessories, liquid and traditional wax candles, scented wax cubes and warmer products used for home decor and fragrance systems, catering equipment and outdoor lighting products. Sterno is headquartered in Corona, California.

The tabular information that follows shows data for each of the operating segments reconciled to amounts reflected in the consolidated financial statements. The results of operations of each of the operating segments are included in consolidated operating results as of their date of acquisition. There were no significant inter-segment transactions.

### Summary of Operating Segments

Net Revenues <i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
5.11 Tactical	\$ 98,053	\$ 83,342	\$ 278,978	\$ 252,022
Ergobaby	23,318	24,260	68,741	70,376
Liberty	24,729	17,872	67,566	61,741
Velocity Outdoor	46,647	34,289	107,395	94,266
ACI	21,897	23,424	67,405	68,454
Arnold	30,895	29,891	90,404	90,486
Foam Fabricators	31,304	33,337	93,634	81,988
Sterno	111,470	113,868	289,131	267,069
Total segment revenue	388,313	360,283	1,063,254	986,402
Corporate and other	—	—	—	—
Total consolidated revenues	\$ 388,313	\$ 360,283	\$ 1,063,254	\$ 986,402

Segment profit (loss) (1) <i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
5.11 Tactical	\$ 5,977	\$ 1,740	\$ 13,388	\$ 3,143
Ergobaby	3,220	4,191	9,151	10,106
Liberty	2,726	467	5,812	4,894
Velocity Outdoor (2)	(27,902)	1,833	(27,635)	5,125
ACI	6,122	6,902	19,087	19,202
Arnold	2,681	2,287	6,385	6,957
Foam Fabricators	4,141	4,100	12,011	7,856
Sterno	12,724	11,634	28,821	19,113
Total	9,689	33,154	67,020	76,396

### Reconciliation of segment profit (loss) to consolidated income (loss) before income taxes:

Interest expense, net	(11,525)	(15,635)	(48,424)	(35,227)
Other income (expense), net	(689)	1,255	(1,213)	(2,285)
Corporate and other (3)	(21,657)	(13,961)	(52,324)	(42,745)
Total consolidated income (loss) before income taxes	\$ (24,182)	\$ 4,813	\$ (34,941)	\$ (3,861)

(1) Segment profit (loss) represents operating income (loss).

(2) Velocity Outdoor - Operating loss from Velocity Outdoor for the three and nine months ended September 30, 2019 includes \$33.4 million in goodwill impairment expense. [Refer to Note G - "Goodwill and Other Intangible Assets."](#)

(3) Primarily relates to management fees expensed and payable to CGM, and corporate overhead expenses. The three and nine months ended September 30, 2019 include a loss of \$4.9 million and \$10.2 million, respectively, related to the loss on the sale of Tilray securities.

Depreciation and Amortization Expense <i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
5.11 Tactical	\$ 5,275	\$ 5,323	\$ 15,730	\$ 15,882
Ergobaby	2,319	2,086	6,543	6,374
Liberty	388	414	1,185	1,130
Velocity Outdoor	3,217	2,077	9,757	6,081
ACI	525	786	1,717	2,384
Arnold	1,616	1,572	4,818	4,656
Foam Fabricators	3,044	2,957	9,054	7,724
Sterno	5,539	7,584	16,456	21,455
Total	21,923	22,799	65,260	65,686
<b>Reconciliation of segment to consolidated total:</b>				
Amortization of debt issuance costs and original issue discount	863	1,079	3,022	3,403
Consolidated total	\$ 22,786	\$ 23,878	\$ 68,282	\$ 69,089

<i>(in thousands)</i>	Accounts Receivable		Identifiable Assets	
	September 30, 2019	December 31, 2018	September 30, 2019 (1)	December 31, 2018 (1)
5.11 Tactical	\$ 48,408	\$ 52,069	\$ 363,933	\$ 319,583
Ergobaby	10,549	11,361	92,850	100,679
Liberty	15,320	10,416	40,606	27,881
Velocity Outdoor	29,300	21,881	204,321	209,398
ACI	6,339	9,193	26,297	13,407
Arnold	18,572	16,298	74,223	66,744
Foam Fabricators	29,903	23,848	158,749	155,504
Sterno	77,905	72,361	262,135	253,637
Allowance for doubtful accounts	(14,873)	(11,882)	—	—
Total	221,423	205,545	1,223,114	1,146,833
<b>Reconciliation of segment to consolidated total:</b>				
Corporate and other identifiable assets	—	—	251,664	8,357
Assets of discontinued operations	—	—	—	540,485
Total	\$ 221,423	\$ 205,545	\$ 1,474,778	\$ 1,695,675

(1) Does not include accounts receivable balances per schedule above or goodwill balances - refer to [Note G - "Goodwill and Other Intangible Assets"](#).

## Note F — Property, Plant and Equipment and Inventory

### Property, plant and equipment

Property, plant and equipment is comprised of the following at September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Machinery and equipment	\$ 182,889	\$ 174,983
Furniture, fixtures and other	33,052	29,096
Leasehold improvements	38,181	34,786
Buildings and land	9,976	9,818
Construction in process	11,509	8,869
	275,607	257,552
Less: accumulated depreciation	(133,316)	(110,951)
Total	\$ 142,291	\$ 146,601

Depreciation expense was \$8.4 million and \$24.6 million for the three and nine months ended September 30, 2019 and \$7.9 million and \$22.8 million for the three and nine months ended September 30, 2018, respectively.

### Inventory

Inventory is comprised of the following at September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Raw materials	\$ 62,647	\$ 60,788
Work-in-process	16,095	12,915
Finished goods	273,582	253,982
Less: obsolescence reserve	(20,103)	(20,248)
Total	\$ 332,221	\$ 307,437

## Note G — Goodwill and Other Intangible Assets

As a result of acquisitions of various businesses, the Company has significant intangible assets on its balance sheet that include goodwill and indefinite-lived intangibles. The Company's goodwill and indefinite-lived intangibles are tested and reviewed for impairment annually as of March 31st or more frequently if facts and circumstances warrant by comparing the fair value of each reporting unit to its carrying value. Each of the Company's businesses represent a reporting unit. The Arnold business previously comprised three reporting units when it was acquired in March 2012, but as a result of changes implemented by Arnold management during 2016 and 2017, the Company reassessed the reporting units at Arnold as of the annual impairment testing date in 2018. After evaluating changes in the operation of the reporting units that led to increased integration and altered how the financial results of the Arnold operating segment were assessed by Arnold management, the Company determined that the previously identified reporting units no longer operate in the same manner as they did when the Company acquired Arnold. As a result, the separate Arnold reporting units were determined to only comprise one reporting unit at the Arnold operating segment level as of March 31, 2018. As part of the exercise of combining the separate Arnold reporting units into one reporting unit, the Company performed "before" and "after" goodwill impairment testing, whereby we performed the annual impairment testing for each of the existing reporting units of Arnold and then subsequent to the completion of the annual impairment testing of the separate reporting units, we performed a quantitative impairment test of the Arnold operating segment, which will represent the reporting unit for future impairment tests.

## Goodwill

### 2019 Interim Impairment Testing

#### Velocity Outdoor

The Company performed interim quantitative impairment testing of Velocity Outdoor at September 30, 2019. As a result of operating results below forecasts in the current period as well as a re-forecast of the Velocity business in which planned earnings and revenue fell below the forecasts of prior periods, the Company determined that a triggering event occurred in the third quarter of 2019. The Company used an income approach for the impairment test, whereby we estimate the fair value of the reporting unit based on the present value of future cash flows. Cash flow projections are based on management's estimate of revenue growth rates and operating margins, and take into consideration industry and market conditions as well as company specific economic factors. The Company used a weighted average cost of capital of 12.2% in the income approach. The discount rate used was based on the weighted average cost of capital adjusted for the relevant risk associated with business specific characteristics and Velocity's ability to execute on the projected cash flows. Based on the results of the impairment test, the fair value of Velocity did not exceed the carrying value, indicating that the goodwill at Velocity is impaired. The difference between the carrying value and fair value of the Velocity business was \$33.4 million, which the Company has recorded as impairment expense as of September 30, 2019. The Company expects to finalize the impairment test during the fourth quarter of 2019.

### 2019 Annual Impairment Testing

The Company uses a qualitative approach to test goodwill for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform quantitative goodwill impairment testing. All of the Company's reporting units except Liberty were tested qualitatively at March 31, 2019. We determined that the Liberty reporting unit required additional quantitative testing because we could not conclude that the fair value of the reporting unit exceeded its carrying value based on qualitative factors alone. We used an income approach and market approach for the quantitative impairment test that was performed of the Liberty business at March 31, 2019, with equal weighting assigned to each. The discount rate used in the income approach was 14.8%. The results of the quantitative impairment testing indicated that the fair value of the Liberty reporting unit exceeded the carrying value. For the reporting units that were tested qualitatively for the 2019 annual impairment testing, the results of the qualitative analysis indicated that it is more likely than not that the fair value exceeded their carrying value.

### 2018 Annual Impairment Testing

For the reporting units that were tested qualitatively for the 2018 annual impairment testing, the results of the qualitative analysis indicated that the fair value exceeded their carrying value. At March 31, 2018, we determined that the Flexmag reporting unit of Arnold required additional quantitative testing because we could not conclude that the fair value of the reporting unit exceeded its carrying value based on qualitative factors alone. For the quantitative impairment test of Flexmag, we estimated the fair value of the reporting unit using an income approach, whereby we estimate the fair value of the reporting unit based on the present value of future cash flows. Cash flow projections are based on management's estimate of revenue growth rates and operating margins and take into consideration industry and market conditions as well as company and reporting unit specific economic conditions. The discount rate used is based on the weighted average cost of capital adjusted for the relevant risk associated with the business and the uncertainty associated with the reporting unit's ability to execute on the projected cash flows. The discount rate used in the income approach for Flexmag was 12.4%.

For the reporting unit change at Arnold, a quantitative impairment test was performed of the Arnold business at March 31, 2018 using an income approach. The discount rate used in the income approach was 12.6%. The results of the quantitative impairment testing indicated that the fair value of the Arnold reporting unit exceeded the carrying value.

A summary of the net carrying value of goodwill at September 30, 2019 and December 31, 2018, is as follows (*in thousands*):

	Nine months ended September 30, 2019	Year ended December 31, 2018
Goodwill - gross carrying amount	\$ 502,553	\$ 502,268
Accumulated impairment losses	(64,534)	(31,153)
Goodwill - net carrying amount	<u>\$ 438,019</u>	<u>\$ 471,115</u>

The following is a reconciliation of the change in the carrying value of goodwill for the nine months ended

September 30, 2019 by operating segment (*in thousands*):

	Balance at January 1, 2019	Acquisitions	Goodwill Impairment	Other	Balance at September 30, 2019
5.11	\$ 92,966	\$ —	\$ —	\$ —	\$ 92,966
Ergobaby	61,031	—	—	—	61,031
Liberty	32,828	—	—	—	32,828
Velocity Outdoor	62,675	285	(33,381)	—	29,579
ACI	58,019	—	—	—	58,019
Arnold	26,903	—	—	—	26,903
Foam Fabricators	72,708	—	—	—	72,708
Sterno	55,336	—	—	—	55,336
Corporate <sup>(1)</sup>	8,649	—	—	—	8,649
Total	\$ 471,115	\$ 285	\$ (33,381)	\$ —	\$ 438,019

<sup>(1)</sup> Represents goodwill resulting from purchase accounting adjustments not "pushed down" to the ACI segment. This amount is allocated back to the ACI segment for purposes of goodwill impairment testing.

### Long lived assets

#### Annual indefinite lived impairment testing

The Company used a qualitative approach to test indefinite lived intangible assets for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of an indefinite lived intangible asset is impaired as a basis for determining whether it is necessary to perform quantitative impairment testing. The Company evaluated the qualitative factors of each indefinite lived intangible asset in connection with the annual impairment testing for 2019 and 2018. Results of the qualitative analysis indicate that it is more likely than not that the fair value of the reporting units that maintain indefinite lived intangible assets exceeded the carrying value.

Other intangible assets are comprised of the following at September 30, 2019 and December 31, 2018 (*in thousands*):

	September 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 462,686	\$ (146,606)	\$ 316,080	\$ 462,686	\$ (120,786)	\$ 341,900
Technology and patents	79,972	(27,422)	52,550	79,646	(23,409)	56,237
Trade names, subject to amortization	189,180	(43,006)	146,174	189,056	(32,506)	156,550
Licensing and non-compete agreements	7,515	(6,950)	565	7,515	(6,655)	860
Distributor relations and other	726	(726)	—	726	(726)	—
Total	740,079	(224,710)	515,369	739,629	(184,082)	555,547
Trade names, not subject to amortization	59,985	—	59,985	60,045	—	60,045
Total intangibles, net	\$ 800,064	\$ (224,710)	\$ 575,354	\$ 799,674	\$ (184,082)	\$ 615,592

Amortization expense related to intangible assets was \$13.5 million and \$12.8 million for the three months ended September 30, 2019 and 2018, respectively, and \$40.6 million and \$35.5 million for the nine months ended September 30, 2019 and 2018, respectively. Estimated charges to amortization expense of intangible assets for the remainder of 2019 and the next four years, is as follows (*in thousands*):

	2019	2020	2021	2022	2023
\$	13,590	\$ 54,078	\$ 53,632	\$ 52,001	\$ 51,603



## Note H — Warranties

The Company's Ergobaby, Liberty and Velocity Outdoor 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. Warranty liability is included in accrued expenses in the accompanying consolidated balance sheets. A reconciliation of the change in the carrying value of the Company's warranty liability for the nine months ended September 30, 2019 and the year ended December 31, 2018 is as follows (*in thousands*):

<u>Warranty liability</u>	<u>Nine months ended September 30, 2019</u>	<u>Year ended December 31, 2018</u>
Beginning balance	\$ 1,624	\$ 2,197
Provision for warranties issued during the period	2,185	3,531
Fulfillment of warranty obligations	(2,152)	(4,258)
Other <sup>(1)</sup>	—	154
Ending balance	<u>\$ 1,657</u>	<u>\$ 1,624</u>

<sup>(1)</sup> Represents the warranty liability recorded in relation to acquisitions. Warranty liabilities of acquisitions are recorded at fair value as of the date of acquisition.

## Note I — Debt

### 2018 Credit Facility

On April 18, 2018, the Company entered into an Amended and Restated Credit Agreement (the "2018 Credit Facility") to amend and restate the 2014 Credit Facility, originally dated as of June 6, 2014 (as previously amended) among the Company, the lenders from time to time party thereto (the "Lenders"), and Bank of America, N.A., as Administrative Agent. The 2018 Credit Facility is secured by all of the assets of the Company, including all of its equity interests in, and loans to, its consolidated subsidiaries. The 2018 Credit Facility provides for (i) revolving loans, swing line loans and letters of credit (the "2018 Revolving Credit Facility") up to a maximum aggregate amount of \$600 million (the "2018 Revolving Loan Commitment"), and (ii) a \$500 million term loan (the "2018 Term Loan").

### 2018 Revolving Credit Facility

All amounts outstanding under the 2018 Revolving Credit Facility will become due on April 18, 2023, which is the maturity date of loans advanced under the 2018 Revolving Credit Facility. The Company may borrow, prepay and reborrow principal under the 2018 Revolving Credit Facility from time to time during its term.

The 2018 Credit Facility also permits the Company, prior to the applicable maturity date, to increase the 2018 Revolving Loan Commitment and/or obtain additional term loans in an aggregate amount of up to \$250 million (the "Incremental Loans"), subject to certain restrictions and conditions. Under the 2018 Revolving Credit Facility, an aggregate amount of up to \$100 million in letters of credit may be issued, as well as swing line loans of up to \$25 million outstanding at one time. The issuance of such letters of credit and the making of any swing line loan would reduce the amount available under the 2018 Revolving Credit Facility.

### 2018 Term Loan

The 2018 Term Loan requires quarterly payments of \$1.25 million commencing June 30, 2018, with a final payment of all remaining principal and interest due on April 18, 2025, the maturity date of the 2018 Term Loan. The 2018 Term Loan was issued at an original issuance discount of 99.75%. In July 2019, the Company repaid approximately \$193.8 million of the 2018 Term Loan using a portion of the proceeds received from the sale of Clean Earth.

### 2014 Credit Facility

The 2014 Credit Facility, as amended, provided for (i) a revolving credit facility of \$550 million, (ii) a \$325 million term loan (the "2014 Term Loan"), and (iii) a \$250 million incremental term loan. The 2018 Credit Facility amended and restated the 2014 Credit Facility.

### Senior Notes

On April 18, 2018, the Company consummated the issuance and sale of \$400 million aggregate principal amount of its 8.000% Senior Notes due 2026 (the "Notes" or "Senior Notes") offered pursuant to a private offering to qualified institutional buyers in accordance with Rule 144A under the Securities Act, and to non-U.S. persons under Regulation S under the Securities Act. The Company used the net proceeds from the sale of the Notes to repay debt under its existing credit facilities in connection with a concurrent refinancing transaction described above. The Notes were issued pursuant to an indenture, dated as of April 18, 2018 (the "Indenture"), between the Company and U.S. Bank National Association, as trustee.

The Notes bear interest at the rate of 8.000% per annum and will mature on May 1, 2026. Interest on the Notes is payable in cash on May 1st and November 1st of each year, beginning on November 1, 2018. The Notes are general senior unsecured obligations of the Company and are not guaranteed by the subsidiaries through which the Company currently conducts substantially all of its operations. The Notes rank equal in right of payment with all of the Company's existing and future senior unsecured indebtedness, and rank senior in right of payment to all of the Company's future subordinated indebtedness, if any. The Notes will be effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness, including the indebtedness under the Company's credit facilities described above.

The Indenture contains several restrictive covenants including, but not limited to, limitations on the following: (i) the incurrence of additional indebtedness, (ii) restricted payments, (iii) dividends and other payments affecting restricted subsidiaries, (iv) the issuance of preferred stock of restricted subsidiaries, (v) transactions with affiliates, (vi) asset sales and mergers and consolidations, (vii) future subsidiary guarantees and (viii) liens, subject in each case to certain exceptions.

The following table provides the Company's debt holdings at September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Senior Notes	\$ 400,000	\$ 400,000
Revolving Credit Facility	—	228,000
Term Loan	298,750	496,250
Less: Unamortized discounts and debt issuance costs	(13,237)	(20,379)
Total debt	\$ 685,513	\$ 1,103,871
Less: Current portion, term loan facilities	(5,000)	(5,000)
Long term debt	\$ 680,513	\$ 1,098,871

Net availability under the 2018 Revolving Credit Facility was approximately \$596.4 million at September 30, 2019. Letters of credit outstanding at September 30, 2019 totaled approximately \$3.6 million. At September 30, 2019, the Company was in compliance with all covenants as defined in the 2018 Credit Facility.

At September 30, 2019, the carrying value of the principal under the Company's outstanding Term Loan, including the current portion, was \$298.8 million, which approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio. The estimated fair value of the outstanding 2018 Term Loan is based on quoted market prices for similar debt issues and is, therefore, classified as Level 2 in the fair value hierarchy. The Company's Senior Notes consisted of the following carrying value and estimated fair value (in thousands):

	Maturity Date	Rate	Fair Value Hierarchy Level	September 30, 2019	
				Carrying Value	Fair Value
Senior Notes	May 1, 2026	8.000%	2	400,000	426,000

### Debt Issuance Costs

Deferred debt issuance costs represent the costs associated with the issuance of the Company's financing arrangements. In connection with the repayment of \$193.8 million of the 2018 Term Loan in July 2019, the Company expensed \$3.7 million in debt issuance costs and \$1.4 million in original issue discount, representing a proportional amount of the Company's debt issuance costs related to the 2018 Term Loan.

Since the Company can borrow, repay and reborrow principal under the 2018 Revolving Credit Facility, the debt issuance costs associated with the 2014 and 2018 Revolving Credit Facility of \$4.3 million and \$5.3 million at September 30, 2019 and December 31, 2018, respectively, have been classified as other non-current assets in the accompanying consolidated balance sheets. The original issue discount and the debt issuance costs associated with the 2018 Term Loan and Senior Notes are classified as a reduction of long-term debt in the accompanying consolidated balance sheets.

#### Interest Rate Swap

In September 2014, the Company purchased an interest rate swap (the "Swap") with a notional amount of \$220 million. The Swap is effective April 1, 2016 through June 6, 2021, the original termination date of the 2014 Term Loan. The agreement requires the Company to pay interest on the notional amount at the rate of 2.97% in exchange for the three-month LIBOR rate. At September 30, 2019 and December 31, 2018, the Swap had a fair value loss of \$4.9 million and \$2.1 million, respectively, principally reflecting the present value of future payments and receipts under the agreement.

The following table reflects the classification of the Company's Swap on the consolidated balance sheets at September 30, 2019 and December 31, 2018 (*in thousands*):

	September 30, 2019	December 31, 2018
Other current liabilities	\$ 2,594	\$ 582
Other noncurrent liabilities	2,289	1,490
Total fair value	<u>\$ 4,883</u>	<u>\$ 2,072</u>

#### **Note J — Stockholders' Equity**

##### ***Trust Common Shares***

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.

##### ***Trust Preferred Shares***

The Trust is authorized to issue up to 50,000,000 Trust preferred shares and the Company is authorized to issue a corresponding number of trust preferred interests.

##### ***Series B Preferred Shares***

On March 13, 2018, the Trust issued 4,000,000 7.875% Series B Trust Preferred Shares (the "Series B Preferred Shares") with a liquidation preference of \$25.00 per share, for gross proceeds of \$100.0 million, or \$96.5 million net of underwriters' discount and issuance costs. Distributions on the Series B Preferred Shares will be payable quarterly in arrears, when and as declared by the Company's board of directors on January 30, April 30, July 30, and October 30 of each year, beginning on July 30, 2018, at a rate per annum of 7.875%. Distributions on the Series B Preferred Shares are cumulative. Unless full cumulative distributions on the Series B Preferred Shares have been or contemporaneously are declared and set apart for payment of the Series B Preferred Shares for all past distribution periods, no distribution may be declared or paid for payment on the Trust common shares. The Series B Preferred Shares are not convertible into Trust common shares and have no voting rights, except in limited circumstances as provided for in the share designation for the preferred shares. The Series B Preferred Shares may be redeemed at the Company's option, in whole or in part, at any time after April 30, 2028, at a price of \$25.00 per share, plus any accumulated and unpaid distributions (thereon whether authorized or declared) to, but excluding, the redemption date. Holders of Series B Preferred Shares will have no right to require the redemption of the Series B Preferred Shares and there is no maturity date.

##### ***Series A Preferred Shares***

On June 28, 2017, the Trust issued 4,000,000 7.250% Series A Trust Preferred Shares (the "Series A Preferred Shares") with a liquidation preference of \$25.00 per share, for gross proceeds of \$100.0 million, or \$96.4 million net of underwriters' discount and issuance costs. When, and if declared by the Company's board of directors, distribution on the Series A Preferred Shares will be payable quarterly on January 30, April 30, July 30, and October 30 of each year, beginning on October 30, 2017, at a rate per annum of 7.250%. Distributions on the Series A Preferred Shares

are discretionary and non-cumulative. The Company has no obligation to pay distributions for a quarterly distribution period if the board of directors does not declare the distribution before the scheduled record of date for the period, whether or not distributions are paid for any subsequent distribution periods with respect to the Series A Preferred Shares, or the Trust common shares. If the Company's board of directors does not declare a distribution for the Series A Preferred Shares for a quarterly distribution period, during the remainder of that quarterly distribution period the Company cannot declare or pay distributions on the Trust common shares. The Series A Preferred Shares may be redeemed at the Company's option, in whole or in part, at any time after July 30, 2022, at a price of \$25.00 per share, plus any declared and unpaid distributions. Holders of Series A Preferred Shares will have no right to require the redemption of the Series A Preferred Shares and there is no maturity date. The Series A Preferred Shares are not convertible into Trust common shares and have no voting rights, except in limited circumstances as provided for in the share designation for the preferred shares.

#### **Profit Allocation Interests**

The Allocation Interests represent the original equity interest in the Company. The holders of the Allocation Interests ("Holders") are entitled to receive distributions pursuant to a profit allocation formula upon the occurrence of certain events. The distributions of the profit allocation are paid upon the occurrence of the sale of a material amount of capital stock or assets of one of the Company's businesses ("Sale Event") or, at the option of the Holders, at each five-year anniversary date of the acquisition of one of the Company's businesses ("Holding Event"). The Company records distributions of the profit allocation to the Holders upon occurrence of a Sale Event or Holding Event as distributions declared on Allocation Interests to stockholders' equity when they are approved by the Company's board of directors.

#### **Sale Events**

The sale of Manitoba Harvest in February 2019 qualified as a Sale Event under the Company's LLC Agreement. During the second quarter of 2019, the Company declared and paid a distribution to the Allocation Member of \$7.7 million related to the sale of Manitoba Harvest. The profit allocation distribution was calculated based on the portion of the gain on sale related to the Closing Date Consideration, less the loss on sale of shares that were received as part of the Closing Consideration. An additional profit allocation distribution of \$8.6 million will be paid to the Allocation Interest Holders in the fourth quarter of 2019 related to the receipt of the Deferred Consideration from Manitoba Harvest. The Company will also pay an additional \$0.3 million in distributions to the Allocation Member related to working capital settlements from prior Sale Events.

The sale of Clean Earth in June 2019 qualified as a Sale Event under the Company's LLC Agreement. During the third quarter of 2019, the Company declared a distribution to the Allocation Member of \$43.3 million. This distribution was paid in the third quarter of 2019.

#### **Reconciliation of net income (loss) available to common shares of Holdings**

The following table reconciles net loss attributable to Holdings to net loss attributable to the common shares of Holdings ( *in thousands*):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net loss from continuing operations attributable to Holdings	\$ (29,824)	\$ (1,345)	\$ (49,313)	\$ (13,893)
Less: Distributions paid - Allocation Interests	43,313	—	51,296	—
Less: Distributions paid - Preferred Shares	3,781	4,773	11,344	8,398
Less: Accrued distributions - Preferred Shares	1,334	1,619	1,334	1,619
Net loss from continuing operations attributable to common shares of Holdings	\$ (78,252)	\$ (7,737)	\$ (113,287)	\$ (23,910)

#### **Earnings per share**

The Company calculates basic and diluted earnings per share using the two-class method which requires the Company to allocate to participating securities that have rights to earnings that otherwise would have been available only to Trust shareholders as a separate class of securities in calculating earnings per share. The Allocation Interests are considered participating securities that contain participating rights to receive profit allocations upon the occurrence of a Holding Event or Sale Event. The calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018 reflects the incremental increase during the period in the profit allocation distribution to Holders related to Holding Events.

Basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018 attributable to the common shares of Holdings is calculated as follows (*in thousands, except per share data*):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Loss from continuing operations attributable to common shares of Holdings	\$ (78,252)	\$ (7,737)	\$ (113,287)	\$ (23,910)
Less: Effect of contribution based profit - Holding Event	1,709	2,004	3,562	3,510
Loss from continuing operations attributable to common shares of Holdings	\$ (79,961)	\$ (9,741)	\$ (116,849)	\$ (27,420)
Income from discontinued operations attributable to Holdings	\$ 2,039	\$ 6,071	\$ 347,370	\$ 15,370
Less: Effect of contribution based profit - Holding Event	—	400	—	209
Income from discontinued operations attributable to common shares of Holdings	\$ 2,039	\$ 5,671	\$ 347,370	\$ 15,161
Basic and diluted weighted average common shares outstanding	59,900	59,900	59,900	59,900
<b>Basic and fully diluted income (loss) per common share attributable to Holdings</b>				
Continuing operations	\$ (1.33)	\$ (0.16)	\$ (1.95)	\$ (0.45)
Discontinued operations	0.03	0.09	5.80	0.25
	<u>\$ (1.30)</u>	<u>\$ (0.07)</u>	<u>\$ 3.85</u>	<u>\$ (0.20)</u>

## Distributions

The following table summarizes information related to our quarterly cash distributions on our Trust common and preferred shares (in thousands, except per share data):

Period	Cash Distribution per Share	Total Cash Distributions	Record Date	Payment Date
<b>Trust Common Shares:</b>				
July 1, 2019 - September 30, 2019 <sup>(1)</sup>	\$ 0.36	\$ 21,564	October 17, 2019	October 24, 2019
April 1, 2019 - June 30, 2019	\$ 0.36	\$ 21,564	July 18, 2019	July 25, 2019
January 1, 2019 - March 31, 2019	\$ 0.36	\$ 21,564	April 18, 2019	April 25, 2019
October 1, 2018 - December 31, 2018	\$ 0.36	\$ 21,564	January 17, 2019	January 24, 2019
July 1, 2018 - September 30, 2018	\$ 0.36	\$ 21,564	October 18, 2018	October 25, 2018
April 1, 2018 - June 30, 2018	\$ 0.36	\$ 21,564	July 19, 2018	July 26, 2018
January 1, 2018 - March 31, 2018	\$ 0.36	\$ 21,564	April 19, 2018	April 26, 2018
October 1, 2017 - December 31, 2017	\$ 0.36	\$ 21,564	January 19, 2018	January 25, 2018
<b>Series A Preferred Shares:</b>				
July 30, 2019 - October 29, 2019 <sup>(1)</sup>	\$ 0.453125	\$ 1,813	October 15, 2019	October 30, 2019
April 30, 2019 - July 29, 2019	\$ 0.453125	\$ 1,813	July 15, 2019	July 30, 2019
January 30, 2019 - April 29, 2019	\$ 0.453125	\$ 1,813	April 15, 2019	April 30, 2019
October 30, 2018 - January 29, 2019	\$ 0.453125	\$ 1,813	January 15, 2019	January 30, 2019
July 30, 2018 - October 29, 2018	\$ 0.453125	\$ 1,813	October 15, 2018	October 30, 2018
April 30, 2018 - July 29, 2018	\$ 0.453125	\$ 1,813	July 16, 2018	July 30, 2018
January 30, 2018 - April 29, 2018	\$ 0.453125	\$ 1,813	April 15, 2018	April 30, 2018
October 30, 2017 - January 29, 2018	\$ 0.453125	\$ 1,813	January 15, 2018	January 30, 2018
<b>Series B Preferred Shares:</b>				
July 30, 2019 - October 29, 2019 <sup>(1)</sup>	\$ 0.4921875	\$ 1,969	October 15, 2019	October 30, 2019
April 30, 2019 - July 29, 2019	\$ 0.4921875	\$ 1,969	July 15, 2019	July 30, 2019
January 30, 2019 - April 29, 2019	\$ 0.4921875	\$ 1,969	April 15, 2019	April 30, 2019
October 30, 2018 - January 29, 2019	\$ 0.4921875	\$ 1,969	January 15, 2019	January 30, 2019
July 30, 2018 - October 29, 2018	\$ 0.4921875	\$ 1,969	October 15, 2018	October 30, 2018
March 13, 2018 - July 29, 2018	\$ 0.74	\$ 2,960	July 16, 2018	July 30, 2018

<sup>(1)</sup> This distribution was declared on October 3, 2019.

## Note K — 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, 2019 and December 31, 2018:

	% Ownership (1) September 30, 2019		% Ownership (1) December 31, 2018	
	Primary	Fully Diluted	Primary	Fully Diluted
5.11 Tactical	97.5	88.9	97.5	88.7
Ergobaby	81.9	75.8	81.9	76.4
Liberty	91.2	88.4	88.6	85.2
Velocity Outdoor	99.2	93.0	99.2	91.0
ACI	69.4	65.4	69.4	69.2
Arnold	96.7	80.2	96.7	79.4
Foam Fabricators	100.0	91.5	100.0	91.5
Sterno	100.0	88.5	100.0	88.9

(1) The principal difference between primary and diluted percentages of our operating segments is due to stock option issuances of operating segment stock to management of the respective businesses.

(in thousands)	Noncontrolling Interest Balances	
	September 30, 2019	December 31, 2018
5.11 Tactical	\$ 11,588	\$ 9,873
Ergobaby	26,729	25,362
Liberty	2,777	3,342
Velocity Outdoor	2,288	2,524
ACI	2,345	(1,236)
Arnold	1,204	1,176
Foam Fabricators	1,615	848
Sterno	(1,201)	(2,067)
Allocation Interests	100	100
	<u>\$ 47,445</u>	<u>\$ 39,922</u>

#### Note L — Fair Value Measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at September 30, 2019 and December 31, 2018 (in thousands):

	Fair Value Measurements at September 30, 2019			
	Carrying Value	Level 1	Level 2	Level 3
<i>Liabilities:</i>				
Put option of noncontrolling shareholders (1)	\$ (131)	\$ —	\$ —	\$ (131)
Contingent consideration - acquisition (2)	(4,374)	—	—	(4,374)
Interest rate swap	(4,883)	—	(4,883)	—
Total recorded at fair value	<u>\$ (9,388)</u>	<u>\$ —</u>	<u>\$ (4,883)</u>	<u>\$ (4,505)</u>

(1) Represents put option issued to noncontrolling shareholders in connection with the 5.11 Tactical and Liberty acquisitions.

(2) Represents potential earn-out payable as additional purchase price consideration by Velocity Outdoor in connection with the acquisition of Ravin.

	Fair Value Measurements at December 31, 2018			
	Carrying Value	Level 1	Level 2	Level 3
<i>Liabilities:</i>				
Put option of noncontrolling shareholders <sup>(1)</sup>	\$ (173)	\$ —	\$ —	\$ (173)
Contingent consideration - acquisition <sup>(2)</sup>	(4,374)	—	—	(4,374)
Interest rate swap	(2,072)	—	(2,072)	—
Total recorded at fair value	\$ (6,619)	\$ —	\$ (2,072)	\$ (4,547)

<sup>(1)</sup> Represents put option issued to noncontrolling shareholders in connection with the 5.11 Tactical and Liberty acquisitions.

<sup>(2)</sup> Represents potential earn-out payable as additional purchase price consideration by Velocity Outdoor in connection with the acquisition of Ravin.

Reconciliations of the change in the carrying value of the Level 3 fair value measurements from January 1, 2018 through September 30, 2019 are as follows (*in thousands*):

	Level 3
Balance at January 1, 2018	\$ (178)
Contingent consideration - Rimports <sup>(1)</sup>	(4,800)
Contingent consideration - Ravin <sup>(2)</sup>	(4,734)
Decrease in the fair value of put option of noncontrolling shareholder - 5.11	5
Adjustment to Ravin contingent consideration	360
Reversal of contingent consideration - Rimports	4,800
Balance at January 1, 2019	\$ (4,547)
Decrease in the fair value of put option of noncontrolling shareholder - Liberty	42
Balance at September 30, 2019	\$ (4,505)

<sup>(1)</sup> The contingent consideration relates to Sterno's acquisition of Rimports in February 2018. The purchase price of Rimports includes a potential earn-out of up to \$25 million contingent on the attainment of certain future performance criteria of Rimports for the twelve-month period from May 1, 2017 to April 30, 2018 and the fourteen month period from March 1, 2018 to April 30, 2019. The fair value of the contingent consideration related to the earn-out was estimated at \$4.8 million at acquisition date and was calculated as the present value of a probability adjusted earnout payment based on the expected term of the payment and a risk-adjusted discount rate. At December 31, 2018, the Company determined that the probability of achieving the earn-out was zero and therefore reversed the amount that was recorded as part of the purchase consideration.

<sup>(2)</sup> The contingent consideration relates to Velocity's acquisition of Ravin in September 2018. The purchase price of Ravin includes a potential earn-out of up to \$25.0 million contingent on the achievement certain financial metrics for the trailing twelve month period ending December 31, 2018. The fair value of the contingent consideration was estimated at \$4.7 million at acquisition date and was calculated using a risk-adjusted option pricing model. The earnout was adjusted to \$4.3 million at December 31, 2018 based on actual results to date. The earnout is currently subject to arbitration and will be paid once the final amount is determined through the arbitration process.

#### Valuation Techniques

##### *2018 Term Loan*

We classify our fixed and floating rate debt as Level 2 items based on quoted market prices for similar debt issues. In April 2018, the Company issued \$400.0 million aggregate principal amount of its Senior Notes due 2026. The fair value of the Senior Notes was determined based on quoted market prices obtained through an external pricing source which derives its price valuations from daily marketplace transactions, with adjustments to reflect the spreads of benchmark bonds, credit risk and certain other variables. We have determined this to be a Level 2 measurement as all significant inputs into the quote provided by our pricing source are observable in active markets. At September 30, 2019, the carrying value of the principal under the Company's outstanding 2018 Term Loan, including the current portion, was \$298.8 million, which approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio.



The Company has not changed its valuation techniques in measuring the fair value of any of its other financial assets and liabilities during the period. For details of the Company's fair value measurement policies under the fair value hierarchy, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Nonrecurring Fair Value Measurements

The following table provides the assets and liabilities carried at fair value measured on a non-recurring basis as of September 30, 2019. Refer to " [Note G – Goodwill and Intangible Assets](#)", for a description of the valuation techniques used to determine fair value of the assets measured on a non-recurring basis in the table below. There were no assets and liabilities carried at fair value measured on a non-recurring basis as of December 31, 2018.

(in thousands)	Fair Value Measurements at September 30, 2019				Expense
	Carrying Value	Level 1	Level 2	Level 3	Nine months ended
					September 30, 2019
Goodwill - Velocity Outdoor	\$ 29,579	\$ —	\$ —	\$ 29,579	\$ 33,381

**Note M — 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. Certain foreign operations are subject to foreign income taxation under existing provisions of the laws of those jurisdictions.

The reconciliation between the Federal Statutory Rate and the effective income tax rate for the nine months ended September 30, 2019 and 2018 is as follows:

	Nine months ended September 30,	
	2019	2018
United States Federal Statutory Rate	(21.0)%	(21.0)%
State income taxes (net of Federal benefits)	4.4	3.8
Foreign income taxes	7.2	46.4
Expenses of Compass Group Diversified Holdings LLC representing a pass through to shareholders <sup>(1)</sup>	22.7	111.1
Impairment expense	15.7	—
Impact of subsidiary employee stock options	0.3	(25.3)
Credit utilization	(2.0)	(10.2)
Non-recognition of NOL carryforwards at subsidiaries	3.9	40.5
Effect of Tax Act	4.0	51.7
Other	(5.5)	(1.3)
Effective income tax rate	29.7 %	195.7 %

<sup>(1)</sup> The effective income tax rate for the nine months ended September 30, 2019 and 2018 includes a loss at the Company's parent, which is taxed as a partnership.

#### Note N — 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 unfunded liability of \$5.7 million is recognized in the consolidated balance sheet as a component of other non-current liabilities at September 30, 2019. Net periodic benefit cost consists of the following for the three and nine months ended September 30, 2019 and 2018 (*in thousands*):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Service cost	\$ 127	\$ 135	\$ 383	\$ 403
Interest cost	33	24	99	72
Expected return on plan assets	(39)	(39)	(119)	(117)
Amortization of unrecognized loss	35	49	104	148
Net periodic benefit cost	\$ 156	\$ 169	\$ 467	\$ 506

During the nine months ended September 30, 2019, per the terms of the pension agreement, Arnold contributed \$0.3 million to the plan. For the remainder of 2019, the expected contribution to the plan will be approximately \$0.5 million.

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, 2019 were considered Level 3.

#### Note O - Commitments and Contingencies

In the normal course of business, the Company and its subsidiaries are involved in various claims and legal proceedings. While the ultimate resolution of these matters has yet to be determined, the Company does not believe that any unfavorable outcomes will have a material adverse effect on the Company's consolidated financial position or results of operations.

#### Leases

The Company and its subsidiaries lease manufacturing facilities, warehouses, office facilities, retail stores, equipment and vehicles under various operating arrangements. Certain of the leases are subject to escalation clauses and renewal periods. The Company and its subsidiaries recognize lease expense, including predetermined fixed escalations, on a straight-line basis over the initial term of the lease including reasonably assured renewal periods from the time that the Company and its subsidiaries control the leased property. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. Certain of our subsidiaries have leases that contain both fixed rent costs and variable rent costs based on achievement of certain operating metrics. The variable lease expense has not been material on a historic basis and no amount was incurred during the quarter ending September 30, 2019. In the three and nine months ended September 30, 2019, the Company recognized \$6.3 million and \$18.6 million, respectively, in expense related to operating leases in the condensed consolidated statements of operations.

The maturities of lease liabilities at September 30, 2019 were as follows (*in thousands*):

2019 (excluding nine months ended September 30, 2019)	\$	4,775
2020		25,140
2021		22,111
2022		19,891
2023		14,023
Thereafter		46,876
<b>Total undiscounted lease payments</b>	<b>\$</b>	<b>132,816</b>
Less: Interest		41,587
<b>Present value of lease liabilities</b>	<b>\$</b>	<b>91,229</b>

The calculated amount of the right-of-use assets and lease liabilities in the table above are impacted by the length of the lease term and discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the company's discretion. In general, it is not reasonably certain that lease renewals will be exercised at lease commencement and therefore lease renewals are not included in the lease term. Regarding the discount rate, Topic 842 requires the use of a rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes the incremental borrowing rate of the subsidiary entering into the lease arrangement, on a collateralized basis, over a similar term as adjusted for any country specific risk. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of September 30, 2019:

<b>Lease Term and Discount Rate</b>	
Weighted-average remaining lease term (years)	6.41
Weighted-average discount rate	7.83%

Supplemental balance sheet information related to leases was as follows (*in thousands*):

	<b>Line Item in the Company's Consolidated Balance Sheet</b>	<b>September 30, 2019</b>
Operating lease right-of-use assets	Other non-current assets	\$ 89,159
Current portion, operating lease liabilities	Other current liabilities	\$ 18,499
Operating lease liabilities	Other non-current liabilities	\$ 72,730

Supplemental cash flow information related to leases was as follows (*in thousands*):

	<b>Nine months ended September 30, 2019</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows from operating leases	\$ 18,574
<b>Right-of-use assets obtained in exchange for lease obligations:</b>	
Operating leases	\$ 14,178

## **Note P — Related Party Transactions**

### Management Services Agreement

The Company entered into a Management Services Agreement ("MSA") with CGM effective May 16, 2006. The MSA provides for, among other things, CGM to perform services for the Company in exchange for a management fee paid quarterly and equal to 0.5% of the Company's adjusted net assets, as defined in the MSA. Concurrent with the June 2019 sale of Clean Earth (refer to [Note C - Discontinued Operations](#)) CGM agreed to waive the management fee on cash balances held at the Company, commencing with the quarter ended June 30, 2019 and continuing until the quarter during which the Company next borrows under the 2018 Revolving Credit Facility.

### Integration Services Agreements

Foam Fabricators, which was acquired in 2018, and Velocity Outdoor, which was acquired in 2017, each entered into an Integration Services Agreement ("ISA") with CGM. The ISA provides for CGM to provide services for new platform acquisitions to, amongst other things, assist the management at the acquired entities in establishing a corporate governance program, implement compliance and reporting requirements of the Sarbanes-Oxley Act of 2002, as amended, and align the acquired entity's policies and procedures with our other subsidiaries. Each ISA is for the twelve month period subsequent to the acquisition. Velocity Outdoor paid CGM a total of \$1.5 million in integration services fees, with \$0.75 million paid in 2018. Foam Fabricators paid CGM \$2.3 million over the term of the ISA, \$2.0 million in 2018 and \$0.3 million in 2019. Integration services fees are included in selling, general and administrative expense on the subsidiaries' statement of operations in the period in which they are incurred.

### ***The Company and its businesses have the following significant related party transactions :***

#### Sterno Recapitalization

In January 2018, the Company completed a recapitalization at Sterno whereby the Company entered into an amendment to the intercompany loan agreement with Sterno (the "Sterno Loan Agreement"). The Sterno Loan Agreement was amended to (i) provide for term loan borrowings of \$56.8 million to fund a distribution to the Company, which owned 100% of the outstanding equity of Sterno at the time of the recapitalization, and (ii) extend the maturity dates of the term loans. In connection with the recapitalization, Sterno's management team exercised all of their vested stock options, which represented 58,000 shares of Sterno. The Company then used a portion of the distribution to repurchase the 58,000 shares from management for a total purchase price of \$6.0 million. In addition, Sterno issued new stock options to replace the exercised options, thus maintaining the same percentage of fully diluted non-controlling interest that existed prior to the recapitalization.

#### 5.11

*Related Party Vendor Purchases* - 5.11 purchases inventory from a vendor who is a related party to 5.11 through one of the executive officers of 5.11 via the executive's 40% ownership interest in the vendor. During the three and nine months ended September 30, 2019, 5.11 purchased approximately \$1.1 million and \$3.2 million, respectively, in inventory from the vendor.

## 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 section entitled "Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q as well as those risk factors discussed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 and in the section entitled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q.*

### Overview

Compass Diversified Holdings ("Holdings") was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings LLC (the "Company") was also formed on November 18, 2005. Holdings and the Company (collectively "CODI") were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. The Company is the operating entity and is a controlling owner of eight businesses, or operating segments, at September 30, 2019. The segments are as follows: 5.11 Acquisition Corp. ("5.11" or "5.11 Tactical"), The Ergo Baby Carrier, Inc. ("Ergobaby"), Liberty Safe and Security Products, Inc. ("Liberty Safe" or "Liberty"), Velocity Outdoor, Inc. (formerly Crosman Corp.) ("Velocity Outdoor" or "Velocity"), Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits"), AMT Acquisition Corporation ("Arnold"), FFI Compass, Inc. ("Foam Fabricators" or "Foam") and The Sterno Group, LLC ("Sterno").

We acquired our existing businesses (segments) that we own at September 30, 2019 as follows:

Business	Acquisition Date	Ownership Interest - September 30, 2019	
		Primary	Diluted
Advanced Circuits	May 16, 2006	69.4%	65.4%
Liberty Safe	March 31, 2010	91.2%	88.4%
Ergobaby	September 16, 2010	81.9%	75.8%
Arnold	March 5, 2012	96.7%	80.2%
Sterno	October 10, 2014	100.0%	88.5%
5.11 Tactical	August 31, 2016	97.5%	88.9%
Velocity Outdoor	June 2, 2017	99.2%	93.0%
Foam Fabricators	February 15, 2018	100.0%	91.5%

We categorize the businesses we own into two separate groups of businesses: (i) branded consumer businesses, and (ii) niche industrial businesses. Branded consumer businesses are characterized as those businesses that we believe capitalize on a valuable brand name in their respective market sector. We believe that our branded consumer businesses are leaders in their particular product category. Niche industrial businesses are characterized as those businesses that focus on manufacturing and selling particular products and industrial services within a specific market sector. We believe that our niche industrial businesses are leaders in their specific market sector. The following is an overview of each of our businesses:

### Branded Consumer

**5.11 Tactical** - 5.11 is a leading provider of purpose-built tactical apparel and gear for law enforcement, firefighters, EMS, and military special operations as well as outdoor and adventure enthusiasts. 5.11 is a brand known for innovation and authenticity, and works directly with end users to create purpose-built apparel and gear designed to enhance the safety, accuracy, speed and performance of tactical professionals and enthusiasts worldwide. 5.11 operates sales offices and distribution centers globally, and 5.11 products are widely distributed in uniform stores, military exchanges, outdoor retail stores, its own retail stores and on 511tactical.com.

**Ergobaby** - Headquartered in Los Angeles, California, Ergobaby is dedicated to building a global community of confident parents with smart, ergonomic solutions that enable and encourage bonding between parents and babies. Ergobaby

offers a broad range of award-winning baby carriers, strollers, car seats, swaddlers, nursing pillows, and related products that fit into families' daily lives seamlessly, comfortably and safely. Historically, Ergobaby derives more than 50% of its sales from outside of the United States.

**Liberty** - Founded in 1988, Liberty Safe is the premier designer, manufacturer and marketer of home and gun safes in North America. From its over 300,000 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 brands, including Cabela's, Case IH, Colt and John Deere. Liberty Safe's products are the market share leader and are sold through an independent dealer network ("Dealer sales") in addition to various sporting goods, farm and fleet and home improvement retail outlets ("Non-Dealer sales"). Liberty has the largest independent dealer network in the industry.

**Velocity Outdoor** - A leading designer, manufacturer, and marketer of airguns, archery products, laser aiming devices and related accessories, Velocity Outdoor offers its products under the highly recognizable Crosman, Benjamin, LaserMax, Ravin and CenterPoint brands that are available through national retail chains, mass merchants, dealer and distributor networks. The airgun product category consists of air rifles, air pistols and a range of accessories including targets, holsters and cases. Velocity Outdoor's other primary product categories are archery, with products including CenterPoint crossbows and the Pioneer Airbow, consumables, which includes steel and plastic BBs, lead pellets and CO2 cartridges, lasers for firearms, and airsoft products. In September 2018, Velocity acquired Ravin Crossbows, LLC ("Ravin" or "Ravin Crossbows"), a manufacturer and innovator of crossbows and accessories. Ravin primarily focuses on the higher-end segment of the crossbow market and has developed significant intellectual property related to the advancement of crossbow technology. Velocity Outdoor is headquartered in Bloomfield, New York.

#### **Niche Industrial**

**Advanced Circuits** - Advanced Circuits is a provider of small-run, quick-turn and volume production printed circuit boards ("PCBs") to customers throughout the United States. Historically, small-run and quick-turn PCBs have represented approximately 50% - 55% of Advanced Circuits' gross sales. Small-run 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 small-run 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.

**Arnold** - Arnold serves a variety of markets including aerospace and defense, motorsport/ automotive, oil and gas, medical, general industrial, energy, reprographics and advertising specialties. Over the course of more than 100 years, Arnold has successfully evolved and adapted our products, technologies, and manufacturing presence to meet the demands of current and emerging markets. Arnold produces high performance permanent magnets (PMAG), precision foil products (Precision Thin Metals or "PTM"), and flexible magnets (Flexmag™) that are mission critical in motors, generators, sensors and other systems and components. Arnold has expanded globally and built strong relationships with our customers worldwide. Arnold is the largest and, we believe, the most technically advanced U.S. manufacturer of engineered magnetic systems. Arnold is headquartered in Rochester, New York.

**Foam Fabricators** - Founded in 1957 and headquartered in Scottsdale, Arizona, Foam Fabricators is a designer and manufacturer of custom molded protective foam solutions and original equipment manufacturer (OEM) components made from expanded polystyrene (EPS) and expanded polypropylene (EPP). Foam Fabricators operates 13 molding and fabricating facilities across North America and provides products to a variety of end-markets, including appliances and electronics, pharmaceuticals, health and wellness, automotive, building products and others.

**Sterno** - Sterno, headquartered in Corona, California, is the parent company of Sterno Products, LLC ("Sterno Products"), Sterno Home Inc. ("Sterno Home"), and Rimports Inc. ("Rimports"). Sterno is a leading manufacturer and marketer of portable food warming fuels for the hospitality and consumer markets, flameless candles and house and garden lighting for the home decor market, and wickless candle products used for home decor and fragrance systems. Sterno offers a broad range of wick and gel chafing fuels, butane stoves and accessories, liquid and traditional wax candles, catering equipment and lamps through their Sterno Products division. In January 2016, Sterno acquired Northern International, Inc. (formerly Sterno Home), which sells flameless candles and outdoor lighting products through the retail segment, and in February 2018, Sterno acquired Rimports, which is a manufacturer and distributor of branded and private label scented wax cubes and warmer products used for home decor and fragrance systems.

Our management team's strategy for our businesses involves:

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

While our businesses have different growth opportunities and potential rates of growth, we work with the management teams of each of our businesses to increase the value of, and cash generated by, each business through various initiatives, including making selective capital investments to expand geographic reach, increase capacity or reduce manufacturing costs of our businesses; improving and expanding existing sales and marketing programs; and assisting in the acquisition and integration of complementary businesses.

We remain focused on marketing our Company's attractive ownership and management attributes to potential sellers of middle market businesses. In addition, we continue to pursue opportunities for add-on acquisitions by our existing subsidiary companies, which can be particularly attractive from a strategic perspective. The middle market continues to be an active segment for deal flow, with further acceleration of deal flow expected in 2019. High valuation levels continue to be driven by the availability of debt capital with favorable terms and financial and strategic buyers seeking to deploy available equity capital. We believe that companies will focus on expanding their customer bases by diversifying their products and services in existing geographic areas during 2019.

## **Recent Events**

### ***Sale of Clean Earth***

On May 8, 2019, the Company, as majority stockholder of CEHI Acquisition Corporation ("Clean Earth" or "CEHI") and as Sellers' Representative, entered into a definitive Stock Purchase Agreement (the "Purchase Agreement") with Calrissian Holdings, LLC ("Buyer"), CEHI, the other holders of stock and options of CEHI and, as Buyer's guarantor, Harsco Corporation, pursuant to which Buyer would acquire all of the issued and outstanding securities of CEHI, the parent company of the operating entity, Clean Earth, Inc.

On June 28, 2019, Buyer completed the acquisition of all of the issued and outstanding securities of CEHI pursuant to the Purchase Agreement. The sale price for CEHI was based on an aggregate total enterprise value of \$625 million and is subject to customary working capital adjustments. After the allocation of the sale proceeds to CEHI non-controlling equity holders and the payment of transaction expenses of approximately \$10.7 million, we received approximately \$552 million of total proceeds at closing related to our debt and equity interests in CEHI. We recognized a gain on the sale of CEHI of \$206.3 million in the second quarter of 2019. During the third quarter of 2019, we received the working capital settlement from the Buyer and recorded an additional \$2.2 million gain related to the sale of Clean Earth.

### ***Sale of Manitoba Harvest***

On February 19, 2019, we entered into a definitive agreement with Tilray, Inc. ("Tilray") and a wholly-owned subsidiary of Tilray, 1197879 B.C. Ltd. ("Tilray Subco"), to sell to Tilray, through Tilray Subco, all of the issued and outstanding securities of our majority owned subsidiary, Manitoba Harvest for total consideration of up to C\$419 million. The completion of the sale of Manitoba Harvest was subject to approval by the British Columbia Supreme Court, which occurred on February 21, 2019. The sale closed on February 28, 2019. Subject to certain customary adjustments, the shareholders of Manitoba Harvest, including the Company, received or will receive the following from Tilray as consideration for their shares of Manitoba Harvest: (i) C\$150 million in cash to the holders of preferred shares of Manitoba Harvest and the holders of common shares of Manitoba Harvest ("Common Holders") and C\$127.5 million in shares of class 2 Common Stock of Tilray ("Tilray Common Stock") to the Common Holders on the closing date of the sale (the "Closing Date Consideration"), and (ii) C\$50 million in cash and C\$42.5 million in Tilray Common Stock to the Common Holders on the date that is six months after the closing date of the arrangement (the "Deferred Consideration"). The sale consideration also includes a potential earnout of up to C\$49 million in Tilray Common Stock

to the Common Holders, if Manitoba Harvest achieves certain levels of U.S. branded gross sales of edible or topical products containing broad spectrum hemp extracts or cannabidiols prior to December 31, 2019.

The cash portion of the Closing Date Consideration was reduced by the amount of the net indebtedness (including accrued interest) of Manitoba Harvest on the closing date of C\$71.3 million (\$53.7 million) and transaction expenses of approximately C\$5.0 million. We recognized a gain on the sale of Manitoba Harvest of \$121.7 million in the first quarter of 2019. Refer to "Liquidity and Capital Resources, Profit Allocation Payments" for a discussion of the profit allocation associated with the sale of Manitoba Harvest. Our share of the net proceeds after accounting for the redemption of the noncontrolling shareholders and the payment of net indebtedness of Manitoba Harvest and transaction expenses was approximately \$124.2 million in cash proceeds and in Tilray Common Stock. In August 2019, the Company received the Deferred Consideration related to the sale. The Company's portion of the Deferred Consideration totaled \$28.4 million in cash proceeds and \$19.6 million in Tilray Common Stock. No amount has been recorded related to the potential earnout as of September 30, 2019 based on an assessment of probability at the end of the quarter.

The Tilray Common Stock consideration was issued in reliance on the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") and pursuant to exemptions from applicable securities laws of any state of the United States, such that any shares of Tilray Common Stock received by the Common Holders were freely tradeable. We sold the Tilray Common Stock received as part of the Closing Consideration during March 2019, recognizing a net loss of \$5.3 million in Other income (expense) during the quarter ended March 31, 2019. In August 2019, the Company sold the Tilray Common Stock received as part of the Deferred Consideration, recognizing a loss of \$4.9 million in Other income/ (expense) during the quarter ended September 30, 2019.

### **Non-GAAP Financial Measures**

"U.S. GAAP" or "GAAP" refer to generally accepted accounting principles in the United States. 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.

### **Results of Operations**

The following discussion reflects a comparison of the historical results of operations of our consolidated business for the three and nine months ended September 30, 2019 and September 30, 2018, and components of the results of operations as well as those components presented as a percent of net revenues, for each of our businesses on a stand-alone basis. For the 2018 acquisitions of Foam Fabricators and Rimports, the pro forma results of operations have been prepared as if we purchased these businesses on January 1, 2018. The historical operating results of Rimports prior to acquisition by Sterno on February 26, 2018 have been added to the results of operations of Sterno for the nine months ended September 30, 2018 for comparability purposes. Where appropriate, relevant pro forma adjustments are reflected as part of the historical operating results. We believe this is the most meaningful comparison of the operating results for each of our business segments. The following results of operations at each of our businesses are not necessarily indicative of the results to be expected for a full year.

All dollar amounts in the financial tables are presented in thousands. References in the financial tables to percentage changes that are not meaningful are denoted by "NM."



## Results of Operations - Consolidated

The following table sets forth our unaudited results of operations for the three and nine months ended September 30, 2019 and 2018:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net revenues	\$ 388,313	\$ 360,283	\$ 1,063,254	\$ 986,402
Cost of revenues	251,778	236,286	684,601	640,039
Gross profit	136,535	123,997	378,653	346,363
Selling, general and administrative expense	82,027	79,577	243,736	241,253
Fees to manager	8,874	10,768	28,352	32,204
Amortization of intangibles	13,520	12,788	40,632	35,533
Impairment expense	33,381	—	33,381	—
Operating income (loss)	(1,267)	20,864	32,552	37,373
Interest expense	(11,525)	(15,635)	(48,424)	(35,227)
Amortization of debt issuance costs	(770)	(927)	(2,625)	(2,978)
Loss on sale of securities	(4,893)	—	(10,193)	—
Other income (expense)	(5,727)	511	(6,251)	(3,029)
Income (loss) from continuing operations before income taxes	(24,182)	4,813	(34,941)	(3,861)
Provision for income taxes	4,400	5,470	10,375	7,557
Income (loss) from continuing operations	\$ (28,582)	\$ (657)	\$ (45,316)	\$ (11,418)

### *Three months ended September 30, 2019 compared to three months ended September 30, 2018*

#### Net revenues

On a consolidated basis, net revenues for the three months ended September 30, 2019 increased by approximately \$28.0 million, or 7.8%, compared to the corresponding period in 2018. During the three months ended September 30, 2019 compared to 2018, we saw notable increases in net sales at 5.11 (\$14.7 million increase), Velocity Outdoor (\$12.4 million increase primarily as a result of the Ravin acquisition), and Liberty (\$6.9 million increase), offset by decreases in net sales at Foam Fabricators (\$2.0 million decrease) and Sterno (\$2.4 million decrease). Refer to "Results of Operations - Business Segments" for a more detailed analysis of net revenues by 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 we 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 companies. Cash flows coming to the Trust and the Company are the result of interest payments on those loans, amortization of those loans and dividends on our equity ownership. However, on a consolidated basis, these items will be eliminated.

#### Cost of revenues

On a consolidated basis, cost of revenues increased approximately \$15.5 million during the three months ended September 30, 2019 compared to the corresponding period in 2018. The increase in cost of revenues reflects notable increases at 5.11 (\$6.5 million increase), Velocity (\$7.9 million increase) and Liberty (\$5.2 million increase) that corresponds with the increase in net sales at these companies. Gross profit as a percentage of net revenues was approximately 35.2% in the three months ended September 30, 2019 compared to 34.4% in the three months ended September 30, 2018. Refer to "Results of Operations - Business Segments" for a more detailed analysis of gross profit by business segment.

#### Selling, general and administrative expense

Consolidated selling, general and administrative expense increased approximately \$2.5 million during the three months ended September 30, 2019, compared to the corresponding period in 2018. Refer to "Results of Operations - Business Segments" for a more detailed analysis of selling, general and administrative expense by business segment. At the

corporate level, general and administrative expense was \$3.3 million in the third quarter of 2019 and \$2.7 million in the third quarter of 2018.

#### Fees to manager

Pursuant to the Management Services Agreement ("MSA"), 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, 2019, we incurred approximately \$8.9 million in management fees as compared to \$10.8 million in fees in the three months ended September 30, 2018. The decrease was attributable to the sales of Manitoba Harvest in the first quarter of 2019 and Clean Earth in the second quarter of 2019. Concurrent with the June 2019 sale of Clean Earth, CGM agreed to waive the management fee on cash balances held at the Company, commencing with the quarter ended June 30, 2019 and continuing until the quarter during which the Company next borrows under the 2018 Revolving Credit Facility.

#### Amortization expense

Amortization expense for the three months ended September 30, 2019 increased \$0.7 million as compared to the three months ended September 30, 2018 primarily as a result of finalization of the amortization of intangible assets at Velocity related to the Ravin acquisition in September 2018.

#### Impairment expense

Velocity Outdoor performed an interim impairment test of their goodwill during the quarter ended September 30, 2019, which resulted in recording impairment expense of \$33.4 million.

#### Interest expense

We recorded interest expense totaling \$11.5 million for the three months ended September 30, 2019 compared to \$15.6 million for the comparable period in 2018, a decrease of \$4.1 million. The decrease in interest expense for the quarter reflects the repayment of \$193.8 million on our 2018 Term Loan in July 2019 using a portion of the proceeds from the sale of Clean Earth, as well as a decrease of the average amount outstanding under our revolving credit facility in the third quarter of 2019 as compared to the third quarter of 2018.

#### Other income (expense)

For the quarter ended September 30, 2019, we recorded \$5.7 million in other expense as compared to \$0.5 million in other income in the quarter ended September 30, 2018, an increase in expense of \$6.2 million. Other expense in the third quarter of 2019 included \$5.0 million in expense related to the write-off of debt issuance costs as a result of our partial pay down of our 2018 Term Loan in July 2019.

#### Income taxes

We had an income tax provision of \$4.4 million from continuing operations during the three months ended September 30, 2019 compared to an income tax provision of \$5.5 million from continuing operations during the same period in 2018. While our income from continuing operations before taxes for the quarter ended September 30, 2019 decreased by approximately \$29.0 million as compared to the prior year quarter ended September 30, 2018, our tax provision increased only \$1.1 million as the tax provision reflects an annual effective tax rate at our subsidiaries, the effect of the impairment expense at Velocity and is effected by the losses at our parent company, which is taxed as a partnership.

### ***Nine months ended September 30, 2019 compared to nine months ended September 30, 2018***

#### Net revenues

On a consolidated basis, net revenues for the nine months ended September 30, 2019 increased by approximately \$76.9 million, or 7.8%, compared to the corresponding period in 2018. Our acquisitions of Foam Fabricators and Rimports in February 2018 contributed \$11.6 million and \$33.1 million, respectively, to the increase in net revenues. During the nine months ended September 30, 2019 compared to 2018, we also saw a notable increases in net sales at 5.11 (\$27.0 million increase), Velocity (\$13.1 million increase as a result of the Ravin acquisition on September 2018) and Liberty (\$5.8 million increase) partially offset by a decrease in net sales at our legacy Sterno business. Refer to "Results of Operations - Business Segments" for a more detailed analysis of net revenues by 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 we 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 companies. Cash flows coming to the Trust and the Company are the result of interest payments on those loans, amortization of those loans and dividends on our equity ownership. However, on a consolidated basis, these items will be eliminated.

#### Cost of revenues

On a consolidated basis, cost of revenues increased approximately \$44.6 million during the nine months ended September 30, 2019 compared to the corresponding period in 2018. Our acquisitions of Foam Fabricators and Rimports in February 2018 contributed \$6.9 million and \$20.8 million, respectively, to the increase. Gross profit as a percentage of net revenues was approximately 35.6% in the nine months ended September 30, 2019 compared to 35.1% in the nine months ended September 30, 2018. Refer to "Results of Operations - Business Segments" for a more detailed analysis of gross profit by business segment.

#### Selling, general and administrative expense

Consolidated selling, general and administrative expense was approximately \$243.7 million during the nine months ended September 30, 2019 compared to \$241.3 million for the comparable period in 2018. Refer to "Results of Operations - Business Segments" for a more detailed analysis of selling, general and administrative expense by business segment. At the corporate level, general and administrative expense was \$9.7 million in the first nine months of 2019 and \$10.3 million in the first nine months of 2018. The nine months ended September 30, 2018 included additional professional fees at corporate associated with the implementation of new accounting standards and the refinancing of our credit facility.

#### Fees to manager

Pursuant to the MSA, 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 nine months ended September 30, 2019, we incurred approximately \$28.4 million in management fees as compared to \$32.2 million in fees in the nine months ended September 30, 2018. The decrease was attributable to the sales of Manitoba Harvest in the first quarter of 2019 and Clean Earth in the second quarter of 2019. Concurrent with the June 2019 sale of Clean Earth, CGM agreed to waive the management fee on cash balances held at the Company, commencing with the quarter ended June 30, 2019 and continuing until the quarter during which the Company next borrows under the 2018 Revolving Credit Facility.

#### Amortization expense

Amortization expense for the nine months ended September 30, 2019 increased \$5.1 million as compared to the nine months ended September 30, 2018 primarily as a result of the acquisition of Foam Fabricators and Rimports in February 2018, and the add-on acquisition of Ravin by Velocity in 2018.

#### Impairment expense

Velocity Outdoor performed an interim impairment test of their goodwill during the quarter ended September 30, 2019, which resulted in recording impairment expense of \$33.4 million.

#### Interest expense

We recorded interest expense totaling \$48.4 million for the nine months ended September 30, 2019 compared to \$35.2 million for the comparable period in 2018, an increase of \$13.2 million. The increase in interest expense for the nine months ended September 30, 2019 reflects the interest associated with the issuance of our Senior Notes in April 2018, as well as an increase of the average amount outstanding under our revolving credit facility in the first nine months of 2019 as compared to the first nine months of 2018.

#### Other income (expense)

For the nine months ended September 30, 2019, we recorded \$6.3 million in other expense as compared to \$3.0 million in other expense in the nine months ended September 30, 2018, an increase in expense of \$3.2 million. In the current year, we incurred \$5.0 million in loss on the pay down of our 2018 Term Debt of \$193.8 million, and \$0.4 million related to foreign exchange losses on the repayment of the intercompany loans of Manitoba Harvest.

#### Income taxes

We had an income tax provision of \$10.4 million with an effective income tax rate of 29.7% from continuing operations during the nine months ended September 30, 2019 compared to an income tax provision of \$7.6 million with an effective

income tax rate of 195.7% from continuing operations during the nine months ended September 30, 2018. While our earnings before taxes for the nine months ended September 30, 2019 decreased by approximately \$31.1 million as compared to the prior nine months ended September 30, 2018, our tax provision increased \$2.8 million as the tax provision reflects an annual effective tax rate at our subsidiaries and is effected by foreign earnings at our operating segments and the losses at our parent company, which is taxed as a partnership. Additionally, a portion of the goodwill impairment related at our Velocity business is nondeductible for tax purposes.

## Results of Operations - Business Segments

### Branded Consumer Businesses

#### 5.11 Tactical

	Three months ended				Nine months ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
Net sales	\$ 98,053	100.0%	\$ 83,342	100.0%	\$ 278,978	100.0%	\$ 252,022	100.0%
Gross profit	\$ 48,204	49.2%	\$ 39,969	48.0%	\$ 136,624	49.0%	\$ 119,194	47.3%
SG&A	\$ 39,791	40.6%	\$ 35,792	42.9%	\$ 115,927	41.6%	\$ 108,742	43.1%
Operating income	\$ 5,977	6.1%	\$ 1,740	2.1%	\$ 13,388	4.8%	\$ 3,143	1.2%

#### **Three months ended September 30, 2019 compared to three months ended September 30, 2018**

##### Net sales

Net sales for the three months ended September 30, 2019 were \$98.1 million as compared to net sales of \$83.3 million for the three months ended September 30, 2018, an increase of \$14.7 million, or 17.7%. This increase is due primarily to retail and e-commerce sales growth of \$12.0 million, up 57% from the prior year comparable period, driven by growing demand in direct to consumer channels. Retail sales grew largely due to ten new retail store openings since September 2018 (bringing the total store count to fifty-four as of September 30, 2019).

##### Gross profit

Gross profit as a percentage of net sales was 49.2% in the three months ended September 30, 2019 as compared to 48.0% for the three months ended September 30, 2018. Growth in gross profit was driven by channel mix as direct to consumer sales, which realize higher gross profit than wholesale sales, grew significantly versus the prior period.

##### Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2019 was \$39.8 million, or 40.6% of net sales compared to \$35.8 million, or 42.9% of net sales for the comparable period in 2018. The comparable quarter in the prior year included higher labor costs associated with executive severance as well as higher labor costs in the Manteca facility. The decrease in selling, general and administrative expenses as a percentage of net sales for the three months ended September 30, 2019 as compared to the prior year comparable period was also a result of lower travel expenses.

##### Income from operations

Income from operations for the three months ended September 30, 2019 was \$6.0 million, an increase of \$4.2 million when compared to income from operations of \$1.7 million for the same period in 2018, based on the factors described above.

#### **Nine months ended September 30, 2019 compared to nine months ended September 30, 2018**

##### Net sales

Net sales for the nine months ended September 30, 2019 were \$279.0 million as compared to net sales of \$252.0 million for the nine months ended September 30, 2018, an increase of \$27.0 million, or 10.7%. This increase is due primarily to retail and e-commerce sales growth of \$26.9 million or 43.1%, driven by growing demand in direct to consumer channels. Retail sales grew largely due to ten new retail store openings since September 2018 (bringing the total store count to fifty-four as of September 30, 2019). Net sales were further increased through strong sales growth at Beyond of \$5.7 million or 54.8%, driven by increased contract business. Through the Beyond product category,

5.11 offers technical survival outerwear systems engineered for missions in extreme temperatures. The increase in net sales for the nine months ended September 30, 2019 as compared to the corresponding period in the prior year was offset by a \$5.9 million decline in professional sales.

Gross profit

Gross profit as a percentage of net sales was 49.0% in the nine months ended September 30, 2019 as compared to 47.3% for the nine months ended September 30, 2018. The prior period cost of sales included a higher level of chargebacks and discretionary discounts granted to customers as 5.11 worked through the backlog associated with challenges experienced while implementing the new ERP system. For the nine months ended September 30, 2019, gross profit as a percentage of net sales was positively impacted by channel mix as direct to consumer sales, which realize higher gross profit than wholesale sales, grew significantly versus the prior period.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2019 was \$115.9 million, or 41.6% of net sales compared to \$108.7 million, or 43.1% of net sales for the comparable period in 2018. The decrease in selling, general and administrative expense as a percentage of net sales was primarily due to a higher level of expense associated with the move into 5.11's new Manteca warehouse facility, which did not reoccur in the nine months ended September 30, 2019. The decrease in selling, general and administrative expense as a percentage of net sales was further impacted by leveraging and controlling travel expenses for the nine months ended September 30, 2019. This decrease was slightly offset by a higher accrual for performance-based bonus in 2019, which did not occur in the nine months ended September 30, 2018.

Income from operations

Income from operations for the nine months ended September 30, 2019 was \$13.4 million, an increase of \$10.2 million when compared to income from operations of \$3.1 million for the same period in 2018, based on the factors described above.

**Ergobaby**

	Three months ended				Nine months ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
Net sales	\$ 23,318	100.0%	\$ 24,260	100.0%	\$ 68,741	100.0%	\$ 70,376	100.0%
Gross profit	\$ 14,808	63.5%	\$ 16,028	66.1%	\$ 43,599	63.4%	\$ 46,751	66.4%
SG&A	\$ 9,634	41.3%	\$ 9,890	40.8%	\$ 28,593	41.6%	\$ 30,644	43.5%
Operating income	\$ 3,220	13.8%	\$ 4,191	17.3%	\$ 9,151	13.3%	\$ 10,106	14.4%

**Three months ended September 30, 2019 compared to three months ended September 30, 2018**

Net sales

Net sales for the three months ended September 30, 2019 were \$23.3 million, a decrease of \$0.9 million, or 3.9%, compared to the same period in 2018. During the three months ended September 30, 2019, international sales were approximately \$16.8 million, representing an increase of \$0.7 million over the corresponding period in 2018, primarily as a result of increased sales volume at Ergobaby's Asia-Pacific distributors. Domestic sales were \$6.5 million in the third quarter of 2019, reflecting a decrease of \$1.6 million compared to the corresponding period in 2018. The decrease in domestic sales was driven by both the Ergobaby and Tula brands, primarily in the specialty account channel.

Gross profit

Gross profit as a percentage of net sales was 63.5% for the quarter ended September 30, 2019, as compared to 66.1% for the three months ended September 30, 2018. The decrease in gross profit was due to a shift in the sales mix from higher margin channels to lower margin channels and an increase in promotional discounts quarter over quarter.

Selling, general and administrative expense

Selling, general and administrative expense decreased quarter over quarter but increased as a percentage of net sales, with expense of \$9.6 million, or 41.3% of net sales for the three months ended September 30, 2019 as compared to \$9.9 million or 40.8% of net sales for the same period of 2018. The increase in selling, general and administrative

expense as a percentage of net sales in the three months ended September 30, 2019 as compared to the comparable period in the prior year is due to the write-off of old tooling assets and additional legal fees during the current quarter .

Income from operations

Income from operations for the three months ended September 30, 2019 decreased \$1.0 million, compared to the same period of 2018, based on the factors noted above.

**Nine months ended September 30, 2019 compared to nine months ended September 30, 2018**

Net sales

Net sales for the nine months ended September 30, 2019 were \$68.7 million, a decrease of \$1.6 million, or 2.3%, compared to the same period in 2018. During the nine months ended September 30, 2019, international sales were approximately \$48.0 million, representing an increase of \$3.4 million over the corresponding period in 2018, primarily as a result of increased sales volume at Ergobaby's Asia-Pacific distributors. Domestic sales were \$20.7 million in the first nine months of 2019, reflecting a decrease of \$5.0 million compared to the corresponding period in 2018. The decrease in domestic sales was primarily the result of a decline in sales in both the Ergobaby and Tula brands.

Gross profit

Gross profit as a percentage of net sales was 63.4% for the nine months ended September 30, 2019, as compared to 66.4% for the nine months ended September 30, 2018. The decrease in gross profit was due to a shift in the sales mix from higher margin channels to lower margin channels.

Selling, general and administrative expense

Selling, general and administrative expense decreased \$2.1 million for the nine months ended September 30, 2019 as compared to the corresponding period in the prior year, with expense of \$28.6 million, or 41.6% of net sales for the nine months ended September 30, 2019 as compared to \$30.6 million or 43.5% of net sales for the corresponding period in 2018. The decrease in selling, general and administrative expense as a percentage of net sales in the nine months ended September 30, 2019 as compared to the comparable period in the prior year is due to expenses related to the bankruptcy of a large U.S. retail customer that were incurred in the first quarter of 2018, reduction in marketing spend, lower variable expenses related to sales, reduced travel and a decrease in payroll expense during the current period.

Income from operations

Income from operations for the nine months ended September 30, 2019 was \$9.2 million, a decrease of \$1.0 million compared to the nine months ended September 30, 2018, based on the factors noted above.

**Liberty Safe**

	Three months ended				Nine months ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
Net sales	\$ 24,729	100.0%	\$ 17,872	100.0%	67,566	100.0%	61,741	100.0%
Gross profit	\$ 5,701	23.1%	\$ 4,062	22.7%	14,771	21.9%	15,330	24.8%
SG&A	\$ 2,850	11.5%	\$ 3,452	19.3%	8,560	12.7%	10,008	16.2%
Operating income	\$ 2,726	11.0%	\$ 467	2.6%	5,812	8.6%	4,894	7.9%

**Three months ended September 30, 2019 compared to three months ended September 30, 2018**

Net sales

Net sales for the quarter ended September 30, 2019 increased approximately \$6.9 million, or 38.4%, to \$24.7 million, compared to the corresponding quarter ended September 30, 2018. Non-Dealer sales were approximately \$15.2 million in the three months ended September 30, 2019 as compared to \$7.0 million in the quarter ended September 30, 2018. The increase in Non Dealer sales is attributable to the addition of a new customer in the Farm and Fleet channel. Dealer sales totaled approximately \$9.5 million in the three months ended September 30, 2019 compared to \$10.8 million in the same period in 2018, representing a decrease of \$1.3 million or 12.0%.

Gross profit

Gross profit as a percentage of net sales totaled approximately 23.1% and 22.7% for the quarters ended September 30, 2019 and September 30, 2018, respectively. The increase in gross profit as a percentage of net sales during the three months ended September 30, 2019 compared to the same period in 2018 is primarily attributable to favorable manufacturing variance as a result of increased production volume.

Selling, general and administrative expense

Selling, general and administrative expense was \$2.9 million for the three months ended September 30, 2019 compared to \$3.5 million for the three months ended September 30, 2018. The decrease in selling, general and administrative expense during the current quarter is primarily related to planned expense reductions and the timing of annual advertising spend. Selling, general and administrative expense represented 11.5% of net sales in the three months ended September 30, 2019 and 19.3% of net sales for the same period of 2018.

Income from operations

Income from operations increased during the three months ended September 30, 2019 to \$2.7 million, as compared to \$0.5 million in the corresponding period in 2018. This increase was primarily a result of the factors noted above.

***Nine months ended September 30, 2019 compared to nine months ended September 30, 2018***

Net sales

Net sales for the nine months ended September 30, 2019 increased approximately \$5.8 million, or 9.4%, to \$67.6 million, compared to the corresponding nine months ended September 30, 2018. Non-Dealer sales were approximately \$31.0 million in the nine months ended September 30, 2019 compared to \$24.2 million for the nine months ended September 30, 2018, representing an increase of \$6.8 million, or 28.1%. The increase in Non-Dealer sales was primarily due to the addition of a new customer in the Farm and Fleet channel. Dealer sales totaled approximately \$36.6 million in the nine months ended September 30, 2019 compared to \$37.5 million in the same period in 2018, representing a decrease of \$0.9 million or 2.4%.

Gross profit

Gross profit as a percentage of net sales totaled approximately 21.9% and 24.8% for the nine months ended September 30, 2019 and September 30, 2018, respectively. The decrease in gross profit as a percentage of net sales during the nine months ended September 30, 2019 compared to the same period in 2018 is primarily attributable to increased raw material costs in the first half of the year as well as changes in freight and advertising costs for certain customers in the current year which has decreased the margins for those customers.

Selling, general and administrative expense

Selling, general and administrative expense was \$8.6 million for the nine months ended September 30, 2019 compared to \$10.0 million for the nine months ended September 30, 2018. The decrease in selling, general and administrative expense during the first nine months of 2019 is primarily related to planned expense reductions and the timing of annual advertising spend. Selling, general and administrative expense represented 12.7% of net sales in the nine months ended September 30, 2019 and 16.2% of net sales for the same period of 2018.

Income from operations

Income from operations increased \$0.9 million during the nine months ended September 30, 2019 to \$5.8 million, compared to the corresponding period in 2018.

## Velocity Outdoor

	Three months ended				Nine months ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
Net sales	\$ 46,647	100.0 %	\$ 34,289	100.0%	\$ 107,395	100.0 %	\$ 94,266	100.0%
Gross profit	\$ 13,633	29.2 %	\$ 9,171	26.7%	\$ 30,451	28.4 %	\$ 26,474	28.1%
SG&A	\$ 5,747	12.3 %	\$ 5,993	17.5%	\$ 17,491	16.3 %	\$ 17,335	18.4%
Impairment expense	\$ 33,381	71.6 %	\$ —	—%	\$ 33,381	31.1 %	\$ —	—%
Operating income (loss)	\$ (27,902)	(59.8)%	\$ 1,833	5.3%	\$ (27,635)	(25.7)%	\$ 5,125	5.4%

### **Three months ended September 30, 2019 compared to three months ended September 30, 2018**

#### Net sales

Net sales for the three months ended September 30, 2019 were \$46.6 million, an increase of \$12.4 million or 36.0%, compared to the same period in 2018. Ravin, which was acquired in September of 2018, had a full quarter of sales in 2019, contributing \$11.8 million to the increase in net sales. The remainder of the increase in net sales for the three months ended September 30, 2019 is primarily due to sales in the Crosman archery product line.

#### Gross profit

Gross profit for the quarter ended September 30, 2019 increased \$4.5 million as compared to the quarter ended September 30, 2018. Gross profit as a percentage of net sales was 29.2% for the three months ended September 30, 2019 as compared to 26.7% in the three months ended September 30, 2018. The increase in gross profit as a percentage of net sales was primarily attributable to the increase in sales in the archery product line.

#### Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2019 was \$5.7 million, or 12.3% of net sales compared to \$6.0 million, or 17.5% of net sales for the three months ended September 30, 2018. The decrease in selling, general and administrative expense for the three months ended September 30, 2019 is primarily related to transaction fees paid in the prior year related to the Ravin acquisition, partially offset by the effect of the Ravin acquisition.

#### Impairment expense

As a result of operating results below forecasts in the current period as well as a re-forecast of the Velocity business in which planned earnings and revenue fell below the forecasts of prior periods, Velocity performed an interim impairment test of their goodwill during the quarter ended September 30, 2019, which resulted in recording impairment expense of \$33.4 million.

#### Income (loss) from operations

Loss from operations for the three months ended September 30, 2019 was \$27.9 million, a decrease of \$29.7 million when compared to income from operations of \$1.8 million for the same period in 2018, primarily as a result of the goodwill impairment expense.

### **Nine months ended September 30, 2019 compared to nine months ended September 30, 2018**

#### Net sales

Net sales for the nine months ended September 30, 2019 were \$107.4 million, an increase of \$13.1 million or 13.9%, compared to the same period in 2018. The increase in net sales for the nine months ended September 30, 2019 is primarily due to the add-on acquisition of Ravin Crossbows in September 2018, partially offset by sales associated with the non-recurring Junior Reserve Officer Training Corps (JROTC) contract that shipped in the first half of 2018. Ravin had net sales of \$31.6 million in the nine months ended September 30, 2019 compared to \$4.4 million in the nine months ended September 30, 2018.

#### Gross profit

Gross profit as a percentage of net sales was 28.4% for the nine months ended September 30, 2019 as compared to 28.1% in the nine months ended September 30, 2018. The increase in gross profit of \$4.0 million was driven primarily by the impact of the acquisition of Ravin Crossbows.



### Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2019 was \$17.5 million, or 16.3% of net sales compared to \$17.3 million, or 18.4% of net sales for the nine months ended September 30, 2018. The decrease in selling, general and administrative expense as a percentage of net sales for the nine months ended September 30, 2019 is primarily related to the effect of the acquisition of Ravin partially offset by transaction fees paid in the prior year related to the acquisition.

### Impairment expense

As a result of operating results below forecasts in the current period as well as a re-forecast of the Velocity business in which planned earnings and revenue fell below the forecasts of prior periods, Velocity performed an interim impairment test of their goodwill during the quarter ended September 30, 2019, which resulted in recording impairment expense of \$33.4 million.

### Income (loss) from operations

Loss from operations for the nine months ended September 30, 2019 was \$27.6 million, a decrease of \$32.8 million when compared to income from operations of \$5.1 million for the same period in 2018, primarily as a result of the goodwill impairment expense.

## **Niche Industrial Businesses**

### **Advanced Circuits**

	Three months ended				Nine months ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
Net sales	\$ 21,897	100.0%	\$ 23,424	100.0%	67,405	100.0%	68,454	100.0%
Gross profit	\$ 9,964	45.5%	\$ 11,067	47.2%	31,029	46.0%	31,582	46.1%
SG&A	\$ 3,627	16.6%	\$ 3,739	16.0%	11,155	16.5%	11,085	16.2%
Operating income	\$ 6,122	28.0%	\$ 6,902	29.5%	19,087	28.3%	19,202	28.1%

### ***Three months ended September 30, 2019 compared to three months ended September 30, 2018***

### Net sales

Net sales for the three months ended September 30, 2019 were \$21.9 million, a decrease of approximately \$1.5 million or 6.5% compared to the three months ended September 30, 2018. The decrease in net sales was due primarily to a facility move in its Arizona location that halted operations for a portion of September 2019 and led to a decrease in sales during the third quarter. Net sales of Quick-Turn Small-Run PCBs decreased by approximately \$1.0 million, Quick-Turn Production PCBs decreased by approximately \$1.2 million and Long-Lead Time PCBs decreased by approximately \$0.3 million when compared to the quarter ended September 30, 2018. These decreases were partially offset by increases in Assembly, and a decrease in promotions during the quarter ended September 30, 2019. Quick-Turn Small-Run PCBs comprised approximately 17.0% of gross sales and Quick-Turn Production PCBs represented approximately 30.7% of gross sales for the third quarter of 2019. Quick-Turn Small-Run PCBs comprised approximately 19.6% of gross sales and Quick-Turn Production PCBs represented approximately 33.3% of gross sales for the third quarter of 2018.

### Gross profit

Gross profit as a percentage of net sales decreased 170 basis points during the three months ended September 30, 2019 compared to the corresponding period in 2018 (45.5% at September 30, 2019 compared to 47.2% at September 30, 2018) primarily as a result of sales mix.

### Selling, general and administrative expense

Selling, general and administrative expense was approximately \$3.6 million in the three months ended September 30, 2019 compared to \$3.7 million in the three months ended September 30, 2018. Selling, general and administrative expense represented 16.6% of net sales for the three months ended September 30, 2019 compared to 16.0% of net sales in the corresponding period in 2018.

Income from operations

Income from operations for the three months ended September 30, 2019 was approximately \$6.1 million compared to \$6.9 million in the same period in 2018, a decrease of approximately \$0.8 million, principally as a result of the factors described above.

**Nine months ended September 30, 2019 compared to nine months ended September 30, 2018**

Net sales

Net sales for the nine months ended September 30, 2019 were \$67.4 million, a decrease of approximately \$1.0 million or 1.5% compared to the nine months ended September 30, 2018. The decrease in net sales was due primarily to a facility move in its Arizona location that halted operations for a portion of September 2019 and led to a decrease in sales during the third quarter. The decrease in net sales was due to decreased sales in Quick-Turn Production PCBs by approximately \$2.3 million, and Quick-Turn Small-Run by approximately \$0.9 million. This was partially offset by increases in Long-Lead Time PCBs by approximately \$0.3 million, Assembly approximately \$0.7 million, and a decrease in promotions by approximately \$1.2 million. Quick-Turn Small-Run PCBs comprised approximately 18.6% of gross sales and Quick-Turn Production PCBs represented approximately 31.4% of gross sales for the nine months ended September 30, 2019. Quick-Turn Small-Run PCBs comprised approximately 19.3% of gross sales and Quick-Turn Production PCBs represented approximately 33.5% of gross sales for the nine months ended September 30, 2018.

Gross profit

Gross profit as a percentage of net sales decreased 10 basis points during the nine months ended September 30, 2019 compared to the corresponding period in 2018 (46.0% at September 30, 2019 compared to 46.1% at September 30, 2018) primarily as a result of sales mix.

Selling, general and administrative expense

Selling, general and administrative expense was approximately \$11.2 million in the nine months ended September 30, 2019 compared to \$11.1 million in the nine months ended September 30, 2018. Selling, general and administrative expense represented 16.5% of net sales for the nine months ended September 30, 2019 compared to 16.2% of net sales in the corresponding period in 2018.

Income from operations

Income from operations for the nine months ended September 30, 2019 was approximately \$19.1 million compared to \$19.2 million in the same period in 2018, a decrease of approximately \$0.1 million, principally as a result of the factors described above.

**Arnold**

	Three months ended				Nine months ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
Net sales	\$ 30,895	100.0%	\$ 29,891	100.0%	90,404	100.0%	90,486	100.0%
Gross profit	\$ 8,334	27.0%	\$ 7,588	25.4%	23,425	25.9%	24,082	26.6%
SG&A	\$ 4,718	15.3%	\$ 4,321	14.5%	14,205	15.7%	14,177	15.7%
Operating income	\$ 2,681	8.7%	\$ 2,287	7.7%	6,385	7.1%	6,957	7.7%

**Three months ended September 30, 2019 compared to three months ended September 30, 2018**

Net sales

Net sales for the three months ended September 30, 2019 were approximately \$30.9 million, an increase of \$1.0 million compared to the same period in 2018. The increase in net sales is primarily a result of increased demand in the Aerospace and Defense market. International sales were \$12.7 million in the three months ended September 30, 2019 and \$11.7 million in the three months ended September 30, 2018.

### Gross profit

Gross profit for the three months ended September 30, 2019 was approximately \$8.3 million compared to approximately \$7.6 million in the same period of 2018. Gross profit as a percentage of net sales increased from 25.4% for the quarter ended September 30, 2018 to 27.0% in the quarter ended September 30, 2019 principally due to favorable sales mix.

### Selling, general and administrative expense

Selling, general and administrative expense in the three month period ended September 30, 2019 was \$4.7 million, an increase in expense of approximately \$0.4 million compared to \$4.3 million in selling, general and administrative expense for the three months ended September 30, 2018. Selling, general and administrative expense was 15.3% of net sales in the three months ended September 30, 2019 and 14.5% in the three months ended September 30, 2018. The increase in selling, general and administrative expense as a percentage of net sales was due to an increase in investments in research and development as well as non-recurring expenses.

### Income from operations

Income from operations for the three months ended September 30, 2019 was approximately \$2.7 million, an increase of \$0.4 million when compared to the same period in 2018, as a result of the factors noted above.

## **Nine months ended September 30, 2019 compared to nine months ended September 30, 2018**

### Net sales

Net sales for the nine months ended September 30, 2019 were approximately \$90.4 million, a decrease of \$0.1 million compared to the corresponding period in 2018. International sales were \$36.6 million in the nine months ended September 30, 2019 and \$36.1 million in the nine months ended September 30, 2018.

### Gross profit

Gross profit for the nine months ended September 30, 2019 was approximately \$23.4 million compared to approximately \$24.1 million in the same period of 2018. Gross profit as a percentage of net sales decreased from 26.6% for the nine months ended September 30, 2018 to 25.9% in the nine months ended September 30, 2019 principally as a result of unfavorable sales mix.

### Selling, general and administrative expense

Selling, general and administrative expense was approximately \$14.2 million in both the nine months ended September 30, 2019 and the nine months ended September 30, 2018, and represented 15.7% of net sales in both periods.

### Income from operations

Income from operations for the nine months ended September 30, 2019 was approximately \$6.4 million, a decrease of \$0.6 million when compared to the same period in 2018, as a result of unfavorable sales mix.

## **Foam Fabricators**

	Three months ended				Nine months ended				
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018		
								Pro forma	
Net sales	\$ 31,304	100.0%	\$ 33,337	100.0%	\$ 93,634	100.0%	\$ 97,021	100.0%	
Gross profit	\$ 8,928	28.5%	\$ 9,447	28.3%	\$ 26,772	28.6%	\$ 25,985	26.8%	
SG&A	\$ 2,541	8.1%	\$ 3,101	9.3%	\$ 8,023	8.6%	\$ 10,560	10.9%	
Operating income	\$ 4,141	13.2%	\$ 4,100	12.3%	\$ 12,011	12.8%	\$ 9,054	9.3%	

*Pro forma financial information for Foam Fabricators for the nine months ended September 30, 2018 includes pre-acquisition results of operations for the period from January 1, 2018 through February 15, 2018, the date of acquisition of Foam, for comparative purposes. The historical results of Foam Fabricators have been adjusted to reflect the purchase accounting adjustments recorded in connection with the acquisition: \$0.2 million in stock compensation expense and \$1.0 million in amortization expense, as well as \$0.1 million in management fees that would have been incurred by Foam Fabricators if we owned the company during this period.*

**Three months ended September 30, 2019 compared to three months ended September 30, 2018**

Net sales

Net sales for the quarter ended September 30, 2019 were \$31.3 million, a decrease of \$2.0 million, or 6.1%, compared to the quarter ended September 30, 2018. The decrease in net sales during the quarter was primarily due to a nonrecurring customer order from the prior year and reduced demand in the insulated shipping container product category during the most recent quarter.

Gross profit

Gross profit as a percentage of net sales was 28.5% and 28.3% for the three months ended September 30, 2019 and 2018, respectively. The increase in gross profit as a percentage of net sales in the quarter ended September 30, 2019 was primarily due to the decreasing price of expanded polystyrene ("EPS") resin. A majority of Foam Fabricator's products are made with EPS resin, an oil and natural gas derived polymer with an added expansion agent, therefore raw material costs will fluctuate based on the price of oil and natural gas.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2019 was \$2.5 million as compared to \$3.1 million for the three months ended September 30, 2018, a decrease of \$0.6 million. Selling, general and administrative expense for the three months ended September 30, 2018 included \$0.3 million in integration service fees paid to CGM. Excluding the effect of the integration service fee, the selling, general and administrative expense in the current quarter is comparable to the prior year quarter.

Income from operations

Income from operations was \$4.1 million in both the three months ended September 30, 2019 and the three months ended September 30, 2018, with the decrease in net sales offset by a decrease in cost of sales and selling, general and administrative expense.

**Nine months ended September 30, 2019 compared to pro forma nine months ended September 30, 2018**

Net sales

Net sales for the nine months ended September 30, 2019 were \$93.6 million, a decrease of \$3.4 million, or 3.5%, compared to the nine months ended September 30, 2018. The decrease in net sales was primarily due to a nonrecurring customer from the prior year as well as a decrease in sales in the automotive and protective packaging categories in the current period.

Gross profit

Gross profit as a percentage of net sales was 28.6% and 26.8% for the nine months ended September 30, 2019 and 2018, respectively. Cost of sales for the nine months ended September 30, 2018 included \$0.7 million of expense related to the amortization of inventory step-up resulting from the purchase price allocation of Foam Fabricators. Excluding the effect of the inventory step-up, prior year gross profit as a percentage of net sales was 27.5%. The increase in gross profit as a percentage of net sales in the nine months ended September 30, 2019 was due to decreasing EPS prices in the current year.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2019 was \$8.0 million as compared to \$10.6 million for the nine months ended September 30, 2018, a decrease of \$2.5 million. Selling, general and administrative expense for the nine months ended September 30, 2018 included \$1.5 million in transaction expenses related to the acquisition and \$1.4 million in incremental integration service fees paid to CGM. Excluding the acquisition expenses and incremental integration service fees, selling, general and administrative expense for the nine months ended September 30, 2018 was \$7.7 million, which is consistent with the expenses incurred in the current period.

Income from operations

Income from operations was \$12.0 million for the nine months ended September 30, 2019 as compared to \$9.1 million for the nine months ended September 30, 2018, an increase of \$3.0 million, primarily as a result of the factors noted above.

## Sterno

	Three months ended				Nine months ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
							Pro forma	
Net sales	\$ 111,470	100.0%	\$ 113,868	100.0%	289,131	100.0%	\$ 291,864	100.0%
Gross profit	\$ 26,969	24.2%	\$ 26,664	23.4%	71,989	24.9%	\$ 67,381	23.1%
SG&A	\$ 9,855	8.8%	\$ 10,577	9.3%	30,109	10.4%	\$ 31,161	10.7%
Operating income	\$ 12,724	11.4%	\$ 11,634	10.2%	28,821	10.0%	\$ 22,860	7.8%

Pro forma financial information for Sterno for the nine months ended September 30, 2018 includes pre-acquisition results of operations for Rimports, which was acquired by Sterno on February 26, 2018, for the period from January 1, 2018 through the date of acquisition for comparative purposes. The historical results of Rimports have been adjusted to reflect an additional \$1.6 million in amortization expense recorded in connection with the purchase accounting adjustments related to the acquisition.

### **Three months ended September 30, 2019 compared to three months ended September 30, 2018**

#### Net sales

Net sales for the three months ended September 30, 2019 were approximately \$111.5 million, a decrease of \$2.4 million, or 2.1%, compared to the same period in 2018. The net sales variance reflects a decrease in sales of higher levels of chargebacks and rebates compared to the third quarter of 2018, and a decrease in sales at Rimports' largest retail customer due to the timing of certain holiday order shipments shifting to the fourth quarter, partially offset by an increase in pricing and sales volume at Sterno Products .

#### Gross profit

Gross profit as a percentage of net sales increased from 23.4% for the three months ended September 30, 2018 to 24.2% for the same period ended September 30, 2019. In the third quarter of 2018, Sterno recognized an additional \$2.0 million in expense related to the amortization of the inventory step-up resulting from the purchase price allocation of the Rimports acquisition. After eliminating the effect of the purchase price allocation in the prior year, gross profit as a percentage of sales was 25.2% for the three months ended September 30, 2018. The decrease in gross profit percentage of 100 basis points compared to the quarter ended September 30, 2018 reflects a shift in sales mix to lower margin products and increased costs at Rimports due to new product launches, offset by favorable chemical costs at Sterno Products.

#### Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2019 was approximately \$9.9 million as compared to \$10.6 million for the three months ended September 30, 2018, a decrease of \$0.7 million reflecting lower commissions and salaries at Rimports and Sterno Home in the current quarter. Selling, general and administrative expense represented 8.8% of net sales for the three months ended September 30, 2019 and 9.3% for the three months ended September 30, 2018.

#### Income from operations

Income from operations for the three months ended September 30, 2019 was approximately \$12.7 million, an increase of \$1.1 million compared to the three months ended September 30, 2018 based on the factors noted above.

### **Nine months ended September 30, 2019 compared to pro forma nine months ended September 30, 2018**

#### Net sales

Net sales for the nine months ended September 30, 2019 were approximately \$289.1 million, a decrease of \$2.7 million, or 0.9%, compared to the corresponding period in 2018. The net sales variance reflects a decrease in sales of outdoor lighting products primarily as a result of a shorter spring period in the domestic market due to weather and higher levels of chargebacks and rebates compared to the prior year, offset by an increase in sales volume at Rimports.

### Gross profit

Gross profit as a percentage of net sales increased from 23.1% for the nine months ended September 30, 2018 to 24.9% for the same period ended September 30, 2019. In the nine months ended September 30, 2018, Sterno recognized \$6.6 million in costs of goods sold related to the amortization of inventory step-up resulting from the purchase price allocation of the Rimports acquisition. After eliminating the effect of the purchase price allocation in the prior year, gross profit as a percentage of sales for the nine months ended September 30, 2018 was 25.4%. The decrease in gross profit as a percentage of net sales reflects a shift in sales mix to lower margin products and increased costs at Rimports due to new product launches, offset by favorable chemical costs at Sterno Products.

### Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2019 and 2018 was \$30.1 million and \$31.2 million, respectively, a decrease of \$1.1 million. The expense from the prior year reflects \$0.6 million in acquisition expenses related to the acquisition of Rimports. Excluding the acquisition expenses, selling, general and administrative expense decreased \$0.5 million, reflecting lower commissions, salaries, incentive programs and various cost savings initiatives. Selling, general and administrative expense represented 10.4% of net sales for the nine months ended September 30, 2019 and 10.7% for the nine months ended September 30, 2018.

### Income from operations

Income from operations for the nine months ended September 30, 2019 was approximately \$28.8 million, an increase of \$6.0 million compared to the nine months ended September 30, 2018 based on the factors noted above.

## Liquidity and Capital Resources

### Liquidity

At September 30, 2019, we had approximately \$285.8 million of cash and cash equivalents on hand, an increase of \$237.1 million as compared to the year ended December 31, 2018 primarily as a result of the proceeds received from our sales of Manitoba Harvest in February 2019 and Clean Earth in June 2019. The majority of our cash is in non-interest bearing checking accounts or 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. The change in cash and cash equivalents is as follows:

### Operating Activities:

<i>(in thousands)</i>	Nine months ended	
	September 30, 2019	September 30, 2018
Cash provided by operating activities	\$ 31,584	\$ 58,772

For the nine months ended September 30, 2019, cash flows provided by operating activities totaled approximately \$31.6 million, which represents a \$27.2 million decrease compared to cash provided by operating activities of \$58.8 million during the nine-month period ended September 30, 2018. The decrease in cash provided by operating activities is primarily due to the effect of cash from our discontinued operations and reflects the timing of the sale of Manitoba Harvest and Clean Earth in the current year. Cash used in operating activities of discontinued operations in the current year was \$10.1 million while cash provided by operating activities of discontinued operations was \$22.7 million in the comparable prior year period. The prior year reflects a full nine months of operations of our discontinued operations while the current year period reflects the effect of the sales of Manitoba Harvest in February 2019 and Clean Earth in June 2019. Cash used in operating activities for working capital for the nine months ended September 30, 2019 was \$28.6 million, as compared to cash used in operating activities for working capital of \$23.7 million for the nine months ended September 30, 2018. The increase in cash used for working capital purposes in the current year primarily reflects the effect of our acquisitions that occurred in February 2018 which resulted in a significant increase in cash needed to fund working capital, particularly at Rimports, our Sterno add-on acquisition. The decrease in cash flows provided by operating activities in the current year was also attributable to the change in the mark-to-market on our interest rate swap, with the nine months ended September 30, 2018 having an unrealized gain of \$4.6 million, and the nine months ending September 30, 2019 having an unrealized loss of \$3.5 million, for a net change of \$8.1 million due to the change in the present value of future payments and receipts under the interest rate swap agreement.

*Investing Activities:*

<i>(in thousands)</i>	Nine months ended	
	September 30, 2019	September 30, 2018
Cash provided by (used in) investing activities	\$ 760,148	\$ (594,705)

Cash flows provided by investing activities for the nine months ended September 30, 2019 totaled \$760.1 million, compared to cash used in investing activities of \$594.7 million in the same period of 2018. Cash flows from Manitoba Harvest and Clean Earth, which are reflected as discontinued operations, totaled \$279.2 million in the current period and reflects the effect of the sale transactions. Cash provided by investing activities from continuing operations in the current year primarily relates to the proceeds received from the sales of Clean Earth and Manitoba Harvest. In the prior year, we had a platform acquisition in the first quarter, Foam Fabricators, and several add-on acquisitions at our subsidiaries, including the Sterno acquisition of Rimports in February 2018. The total amount spent on acquisitions in the nine months ended September 30, 2018 was approximately \$495.1 million. Capital expenditures in the nine months ended September 30, 2019 decreased approximately \$12.7 million compared to the same period in the prior year, due primarily to higher than typical expenditures at our 5.11 and Arnold businesses in the prior year. We expect capital expenditures for the full year of 2019 to be approximately \$30 million to \$35 million.

*Financing Activities:*

<i>(in thousands)</i>	Nine months ended	
	September 30, 2019	September 30, 2018
Cash (used in) provided by financing activities	\$ (557,118)	\$ 531,288

Cash flows used in financing activities totaled approximately \$557.1 million during the nine months ended September 30, 2019 compared to cash flows provided by financing activities of \$531.3 million during the nine months ended September 30, 2018. The 2018 activity primarily related to the financing of our acquisitions of Foam Fabricators and Rimports in February 2018, which were financed through draws on our 2014 Revolving Credit Facility, partially offset by net proceeds of \$96.5 million from the Series B Preferred Shares offering in March 2018 which was used to repay a portion of the outstanding amount on the 2014 Revolving Credit Facility. In April 2018, we issued \$400.0 million in Senior Notes and amended our credit facility. The proceeds from the issuance of the Senior Notes were used to pay down outstanding amounts under our credit facility. In the current year, we used proceeds from the sales of Manitoba Harvest and Clean Earth to repay the outstanding amount on the 2018 Revolving Credit Facility, and to pay down \$193.8 million on our 2018 Term Loan. We also paid our distributions on our common and preferred shares, as well as a distribution to the Allocation Member of \$51.3 million related primarily to the sales of Manitoba Harvest and Clean Earth.

*Intercompany Debt*

A component of our acquisition financing strategy that we utilize in acquiring the businesses we own and manage is to provide both equity capital and debt capital, raised at the parent level through our existing credit facility. Our strategy of providing intercompany debt financing within the capital structure of the businesses that we acquire and manage allows us the ability to distribute cash to the parent company through monthly interest payments and amortization of the principal on these intercompany loans. Each loan to our businesses has a scheduled maturity and each business is entitled to repay all or a portion of the principal amount of the outstanding loans, without penalty, prior to maturity. Certain of our businesses have paid down their respective intercompany debt balances through the cash flow generated by these businesses and we have recapitalized, and expect to continue to recapitalize, these businesses in the normal course of our business. The recapitalization process involves funding the intercompany debt using either cash on hand at the parent or our applicable Credit Facility, and serves the purpose of optimizing the capital structure at our subsidiaries and providing the noncontrolling shareholders with a distribution on their ownership interest in a cash flow positive business. In January 2018, the Company completed a recapitalization at Sterno whereby the Company entered into an amendment to the intercompany loan agreement with Sterno (the "Sterno Loan Agreement"). The Sterno Loan Agreement was amended to (i) provide for term loan borrowings of \$57.7 million to fund a distribution to the Company, which owned 100% of the outstanding equity of Sterno at the time of the recapitalization, and (ii) extend the maturity dates of the term loans.

In the first quarter of 2019, we amended the 5.11 intercompany debt agreement to update the definition of capital expenditures to exclude capital expenditures made with respect to 5.11's retail stores from the calculation of the fixed

charge coverage ratio. 5.11 was in compliance with the covenants under their intercompany debt agreement at September 30, 2019. Subsequent to the third quarter of 2018, we amended the Sterno Loan Agreement to increase the amount available to Sterno under their intercompany revolving credit facility. Liberty was not in compliance with the financial covenants under their intercompany loan agreement at December 31, 2018, and we amended the Liberty intercompany debt agreement to grant a waiver to them through the quarter ended December 31, 2019. Liberty was in compliance with all financial covenants at September 30, 2019. Except as previously noted, all of our subsidiaries were in compliance with the financial covenants included within their intercompany credit arrangements at September 30, 2019.

As of September 30, 2019, we had the following outstanding loans due from each of our businesses:

<i>(in thousands)</i>	
5.11 Tactical	\$ 197,015
Ergobaby	\$ 38,082
Liberty	\$ 49,474
Velocity Outdoor	\$ 122,776
Advanced Circuits	\$ 66,245
Arnold	\$ 75,530
Foam Fabricators	\$ 95,450
Sterno	\$ 254,076

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 2018 Credit Facility; (iii) payments to CGM due pursuant to the MSA and the LLC 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 believe that we currently have sufficient liquidity and capital resources to meet our existing obligations, including quarterly distributions to our shareholders, as approved by our board of directors, over the next twelve months.

#### *Financing Arrangements*

##### *2018 Credit Facility*

In April 2018, we entered into an Amended and Restated Credit Agreement (the "2018 Credit Facility") to amend and restate the 2014 Credit Facility. The 2018 Credit Facility provides for (i) revolving loans, swing line loans and letters of credit (the "2018 Revolving Credit Facility") up to a maximum aggregate amount of \$600 million (the "2018 Revolving Loan Commitment"), and (ii) a \$500 million term loan (the "2018 Term Loan").

We had \$596.4 million in net availability under the 2018 Revolving Credit Facility at September 30, 2019. The outstanding borrowings under the 2018 Revolving Credit Facility include \$3.6 million of outstanding letters of credit at September 30, 2019. At September 30, 2019, we had \$298.8 million outstanding on the 2018 Term Loan. In July 2019, the Company repaid approximately \$193.8 million of the 2018 Term Loan using a portion of the proceeds received from the sale of Clean Earth.

##### *Senior Notes*

On April 18, 2018, we consummated the issuance and sale of \$400 million aggregate principal amount of our 8.000% due 2026 (the "Notes" or "Senior Notes") offered pursuant to a private offering to qualified institutional buyers in accordance with Rule 144A under the Securities Act, and to non-U.S. persons under Regulation S under the Securities Act. The Notes were issued pursuant to an indenture, dated as of April 18, 2018 (the "Indenture"), between the Company and U.S. Bank National Association, as trustee. The Notes will bear interest at the rate of 8.000% per annum and will mature on May 1, 2026. Interest on the Notes is payable in cash on May 1st and November 1st of each year. The Notes are general senior unsecured obligations of the Company and are not guaranteed by our subsidiaries.



The following table reflects required and actual financial ratios as of September 30, 2019 included as part of the affirmative covenants in our 2018 Credit Facility.

<u>Description of Required Covenant Ratio</u>	<u>Covenant Ratio Requirement</u>	<u>Actual Ratio</u>
Consolidated Fixed Charge Coverage Ratio	Greater than or equal to 1.50:1.0	1:62:1.0
Consolidated Senior Secured Leverage Ratio <sup>(1)</sup>	Less than or equal to 3.50:1.0	0.55:1.0
Consolidated Total Leverage Ratio <sup>(1)</sup>	Less than or equal to 5.00:1.0	2.29:1.0

<sup>(1)</sup> In the calculation of our Consolidated Senior Secured Leverage Ratio and Consolidated Total Leverage Ratio, the amount of total outstanding debt is reduced by cash and cash equivalents either held by the Company on deposit at the Administrative Agent or in an account subject to a Qualifying Control Agreement. At September 30, 2019, the ratio calculations exclude \$90.3 million of cash as a result of Qualifying Control Agreements not in place as of the end of the quarter. Subsequent to quarter end, the Qualifying Control Agreements were established for this cash and the resulting calculations would have been reduced for this cash balance.

#### Interest Expense

The components of interest expense and periodic interest charges on outstanding debt are as follows ( *in thousands*):

	<u>Nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Interest on credit facilities	\$ 20,225	\$ 23,293
Interest on Senior Notes	24,000	14,489
Unused fee on Revolving Credit Facility	1,393	1,282
Amortization of original issue discount	397	576
Unrealized (gain) loss on interest rate derivative <sup>(1)</sup>	3,486	(4,649)
Other interest expense	211	266
Interest income	(1,288)	(30)
Interest expense	<u>\$ 48,424</u>	<u>\$ 35,227</u>
Average daily balance outstanding - credit facilities	<u>\$ 547,332</u>	<u>\$ 709,929</u>
Effective interest rate - credit facilities	<u>6.3%</u>	<u>3.9%</u>

<sup>(1)</sup> On September 16, 2014, we purchased an interest rate swap (the "Swap") with a notional amount of \$220 million effective April 1, 2016 through June 6, 2021. The agreement requires us to pay interest on the notional amount at the rate of 2.97% in exchange for the three-month LIBOR rate. At September 30, 2019, the current portion of the Swap was in a liability position and had a fair value of \$2.6 million, and the non-current portion of the Swap was in a liability position with a fair value of \$2.3 million. The fair value of the Swap reflects the present value of future payments and receipts under the agreement and is reflected as a component of interest expense and non-current assets and current liabilities at September 30, 2019.

In the above table, we provide the effective interest rate on our credit facilities, including the effect of the Swap, and excluding the interest on our Senior Notes, which is at a fixed 8.000%.

## Reconciliation of Non-GAAP Financial Measures

GAAP or U.S. GAAP refer to generally accepted accounting principles in the United States. 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.

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 Earnings before Interest, Income Taxes, Depreciation and Amortization ("EBITDA"), Adjusted EBITDA, and Cash Flow Available for Distribution and Reinvestment ("CAD").

### Reconciliation of Net income (Loss) to EBITDA and Adjusted EBITDA

**EBITDA** – 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** – Adjusted EBITDA is calculated utilizing the same calculation as described above in arriving at EBITDA further adjusted by: (i) noncontrolling stockholder compensation, which generally consists of non-cash stock option expense; (ii) successful acquisition costs, which consist of transaction costs (legal, accounting, due diligence, etc.) incurred in connection with the successful acquisition of a business expensed during the period in compliance with ASC 805; (iii) management fees, which reflect fees due quarterly to our Manager in connection with our MSA, as well as Integration Services Fees paid by newly acquired companies; (iv) impairment charges, which reflect write downs to goodwill or other intangible assets; and (v) foreign currency transaction gains or losses incurred in connection with the conversion of intercompany debt from a foreign functional currency to U.S. dollar.

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 income (loss) from continuing operations 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 that 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.

The following tables reconcile 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, 2019**

	Corporate	5.11	Ergobaby	Liberty	Velocity Outdoor	ACI	Arnold	Foam	Sterno	Consolidated
<b>Net income (loss) <sup>(1)</sup></b>	\$ 292,440	\$ (1,071)	\$ 4,251	\$ 1,404	\$ (35,242)	\$ 11,035	\$ (132)	\$ 3,383	\$ 8,819	\$ 284,887
Adjusted for:										
Provision (benefit) for income taxes	—	742	2,248	1,058	(2,198)	2,934	1,679	1,492	2,420	10,375
Interest expense, net	48,247	2	—	—	173	(1)	(1)	—	4	48,424
Intercompany interest	(61,609)	13,500	2,640	3,278	8,484	5,029	4,777	6,675	17,226	—
Loss on debt extinguishment	5,038	—	—	—	—	—	—	—	—	5,038
Depreciation and amortization	1,333	16,037	6,566	1,248	9,937	1,830	4,883	9,258	16,793	67,885
<b>EBITDA</b>	<b>285,449</b>	<b>29,210</b>	<b>15,705</b>	<b>6,988</b>	<b>(18,846)</b>	<b>20,827</b>	<b>11,206</b>	<b>20,808</b>	<b>45,262</b>	<b>416,609</b>
Gain on sale of business	(330,203)	—	—	—	—	—	—	—	—	(330,203)
Other (income) expense	91	(92)	(11)	10	968	(22)	(3)	256	16	1,213
Noncontrolling shareholder compensation	—	1,742	620	(15)	86	167	32	767	866	4,265
Impairment expense	—	—	—	—	33,381	—	—	—	—	33,381
Loss on sale of investment	10,193	—	—	—	—	—	—	—	—	10,193
Integration services fee	—	—	—	—	—	—	—	281	—	281
Other	—	—	—	266	—	58	—	—	—	324
Management fees	24,789	750	375	375	375	375	375	563	375	28,352
<b>Adjusted EBITDA</b>	<b>\$ (9,681)</b>	<b>\$ 31,610</b>	<b>\$ 16,689</b>	<b>\$ 7,624</b>	<b>\$ 15,964</b>	<b>\$ 21,405</b>	<b>\$ 11,610</b>	<b>\$ 22,675</b>	<b>\$ 46,519</b>	<b>\$ 164,415</b>

<sup>(1)</sup> Net income (loss) does not include income from discontinued operations for the nine months ended September 30, 2019.

**Adjusted EBITDA**  
**Nine months ended September 30, 2018**

	Corporate	5.11	Ergobaby	Liberty	Velocity Outdoor	ACI	Arnold	Foam	Sterno	Consolidated
<b>Net income (loss)<sup>(1)</sup></b>	\$ (19,267)	\$ (9,612)	\$ 4,550	\$ 1,282	\$ (934)	\$ 10,646	\$ (330)	\$ 530	\$ 2,882	\$ (10,253)
Adjusted for:										
Provision (benefit) for income taxes	—	(586)	1,697	420	(736)	2,790	2,446	689	837	7,557
Interest expense, net	34,979	13	1	—	235	(2)	—	—	1	35,227
Intercompany interest	(57,311)	12,904	3,661	3,139	6,401	5,605	4,660	5,898	15,043	—
Loss on debt extinguishment	744	—	—	—	—	—	—	—	—	744
Depreciation and amortization	1,352	16,201	6,397	1,190	6,252	2,497	4,789	7,912	21,758	68,348
<b>EBITDA</b>	<b>(39,503)</b>	<b>18,920</b>	<b>16,306</b>	<b>6,031</b>	<b>11,218</b>	<b>21,536</b>	<b>11,565</b>	<b>15,029</b>	<b>40,521</b>	<b>101,623</b>
Gain on sale of businesses	(1,165)	—	—	—	—	—	—	—	—	(1,165)
Gain (loss) on sale of fixed assets	—	(259)	—	59	—	—	48	72	—	(80)
Noncontrolling shareholder compensation	—	1,903	733	37	1,074	18	117	594	1,496	5,972
Acquisition related expenses	5	—	—	—	1,362	—	—	1,552	632	3,551
Integration services fee	—	—	—	—	750	—	—	1,406	—	2,156
Loss on foreign currency transactions	1,364	—	—	—	—	—	—	—	—	1,364
Management fees	28,734	750	375	375	375	375	375	470	375	32,204
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>\$ (10,565)</b>	<b>\$ 21,314</b>	<b>\$ 17,414</b>	<b>\$ 6,502</b>	<b>\$ 14,779</b>	<b>\$ 21,929</b>	<b>\$ 12,105</b>	<b>\$ 19,123</b>	<b>\$ 43,024</b>	<b>\$ 145,625</b>

<sup>(1)</sup> Net income (loss) does not include loss from discontinued operations for the nine months ended September 30, 2018.

<sup>(2)</sup> As a result of the sales of Manitoba Harvest in February 2019 and Clean Earth in June 2019, Adjusted EBITDA for the nine months ended September 30, 2018 does not include Adjusted EBITDA from Manitoba Harvest of \$4.9 million and Clean Earth of \$32.9 million.

Cash Flow Available for Distribution and Reinvestment

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 cash available for distribution ("CAD"). CAD is a non-GAAP measure that we believe provides additional, useful information to our shareholders in order to enable them to evaluate our ability to make anticipated quarterly distributions. CAD is 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 following table reconciles CAD to net income (loss) and cash flows 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>	<b>Nine Months Ended</b>	
	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Net income	\$ 301,788	\$ 4,678
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	78,413	87,878
Impairment expense	33,381	—
Gain on sale of businesses	(330,203)	(1,165)
Amortization of debt issuance costs and original issue discount	3,022	3,403
Unrealized (gain) loss on interest rate hedge	3,486	(4,649)
Noncontrolling shareholder charges	6,204	7,694
Provision for loss on receivables	2,786	459
Deferred taxes	(14,538)	(6,622)
Other	5,961	46
Changes in operating assets and liabilities	(58,716)	(32,950)
Net cash provided by operating activities	31,584	58,772
Plus:		
Unused fee on revolving credit facility	1,393	1,282
Integration services fee (1)	281	2,156
Successful acquisition costs	596	4,995
Realized loss from foreign currency (2)	363	1,364
Loss on sale of Tilray Common Stock	10,193	—
Changes in operating assets and liabilities	58,716	32,950
Other	—	885
Less:		
Payment of interest rate swap	675	1,444
Maintenance capital expenditures: (3)		
Compass Group Diversified Holdings LLC	—	—
5.11 Tactical	1,547	2,629
Advanced Circuits	1,126	1,169
Arnold	2,874	3,160
Clean Earth	3,495	5,998
Ergobaby	583	646
Foam Fabricators	1,387	1,455
Liberty	720	1,039
Manitoba Harvest	—	342
Sterno	932	2,320
Velocity Outdoor	2,096	3,063
Other	2,301	—
Preferred share distribution	11,344	8,398
<b>Estimated cash flow available for distribution and reinvestment</b>	<b>\$ 74,046</b>	<b>\$ 70,741</b>

Distribution paid in April 2019/2018	\$	(21,564)	\$	(21,564)
Distribution paid in July 2019/2018		(21,564)		(21,564)
Distribution paid in October 2019/2018		(21,564)		(21,564)
	\$	(64,692)	\$	(64,692)

<sup>(1)</sup> Represents fees paid by newly acquired companies to the Manager for integration services performed during the first year of ownership, payable quarterly.

<sup>(2)</sup> Reflects the foreign currency transaction gain or loss resulting from the Canadian dollar intercompany loans issued to Manitoba Harvest.

<sup>(3)</sup> Represents maintenance capital expenditures that were funded from operating cash flow, net of proceeds from the sale of property, plant and equipment, and excludes growth capital expenditures of approximately \$10.7 million for the nine months ended September 30, 2019 and \$19.2 million for the nine months ended September 30, 2018.

### Seasonality

Earnings of certain of our operating segments are seasonal in nature due to various recurring events, holidays and seasonal weather patterns, as well as the timing of our acquisitions during a given year. Historically, the third and fourth quarter produce the highest net sales during our fiscal year.

### **Related Party Transactions**

#### Management Services Agreement

We entered into a Management Services Agreement ("MSA") with CGM effective May 16, 2006. The MSA provides for, among other things, CGM to perform services for the Company in exchange for a management fee paid quarterly and equal to 0.5% of the Company's adjusted net assets, as defined in the MSA. Concurrent with the June 2019 sale of Clean Earth (refer to [Note C - Discontinued Operations](#)) CGM agreed to waive the management fee on cash balances held at the Company, commencing with the quarter ended June 30, 2019 and continuing until the quarter during which the Company next borrows under the 2018 Revolving Credit Facility.

#### Integrations Services Agreements

Foam Fabricators, which was acquired in 2018, entered into an Integration Services Agreement ("ISA") with CGM. The ISA provides for CGM to provide services for new platform acquisitions to, amongst other things, assist the management at the acquired entities in establishing a corporate governance program, implement compliance and reporting requirements of the Sarbanes-Oxley Act and align the acquired entity's policies and procedures with our other subsidiaries. Each ISA is for the twelve-month period subsequent to the acquisition. Foam Fabricators paid CGM \$2.3 million over the term of the ISA, \$2.0 million in 2018 and \$0.3 million in 2019.

#### 5.11 - Related Party Vendor Purchases

5.11 purchases inventory from a vendor who is a related party to 5.11 through one of the executive officers of 5.11 via the executive's 40% ownership interest in the vendor. During the nine months ended September 30, 2019, 5.11 purchased approximately \$3.2 million in inventory from the vendor.

#### Profit Allocation Payments

The sales of Manitoba Harvest in February 2019 and Clean Earth in June 2019 each qualified as a Sale Event under the Company's LLC Agreement. During the second quarter of 2019, the Company declared a distribution to the Allocation Member in connection with the Sale Event of Manitoba Harvest of \$7.7 million which was paid in the second quarter of 2019. The profit allocation distribution was calculated based on the portion of the gain on sale related to the Closing Date Consideration, less the loss on sale of shares that were received as part of the Closing Consideration. An additional profit allocation distribution related to the Sale Event of Manitoba Harvest will be declared subsequent to receipt of the Deferred Consideration in August 2019. During the third quarter of 2019, the Company declared a distribution to the Allocation Member in connection with the Sale Event of Clean Earth of \$43.3 million which was paid in the third quarter of 2019. During the fourth quarter of 2019, the Company declared a distribution to the Allocation Member in connection with the Deferred Consideration received related to the Manitoba Harvest sale of \$8.7 million.

### **Off-Balance Sheet Arrangements**

We have no special purpose entities or off-balance sheet arrangements.

## Contractual Obligations

Long-term contractual obligations, except for our long-term debt obligations and operating lease liabilities, 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, 2019:

(in thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations <sup>(1)</sup>	\$ 993,024	\$ 25,076	\$ 104,647	\$ 103,837	\$ 759,464
Operating lease obligations <sup>(2)</sup>	132,816	4,775	47,251	33,914	46,876
Purchase obligations <sup>(3)</sup>	351,708	126,063	108,594	81,609	35,442
Total <sup>(4)</sup>	<u>\$ 1,477,548</u>	<u>\$ 155,914</u>	<u>\$ 260,492</u>	<u>\$ 219,360</u>	<u>\$ 841,782</u>

(1) Reflects amounts due under our 2018 Credit Facility, as well as our Senior Notes, together with interest on our debt obligations.

(2) Reflects various operating leases for office space, manufacturing facilities and equipment from third parties with various lease terms.

(3) Reflects non-cancelable commitments as of September 30, 2019, including: (i) shareholder distributions of \$116.0 million; (ii) estimated management fees of \$30.4 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 distributions may differ from the amount included in this schedule.

(4) The contractual obligation table does not include approximately \$1.1 million in liabilities associated with unrecognized tax benefits as of September 30, 2019 as the timing of the recognition of this liability is not certain. The amount of the liability is not expected to significantly change in the next twelve months.

## 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.

Except as set forth below, our critical accounting estimates have not changed materially from those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, for the year ended December 31, 2018, as filed with the Securities and Exchange Commission ("SEC") on February 27, 2019.

### Goodwill and Indefinite-lived Intangible Asset Impairment Testing

#### Goodwill

Goodwill represents the excess amount of the purchase price over the fair value of the assets acquired. Our goodwill and indefinite lived intangible assets are tested for impairment on an annual basis as of March 31<sup>st</sup>, and if current events or circumstances require, on an interim basis. Goodwill is allocated to various reporting units, which are generally an operating segment or one level below the operating segment. Each of our businesses represents a reporting unit.

We use a qualitative approach to test goodwill for impairment by first assessing qualitative factors to determine whether it is more-likely than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment testing. The qualitative factors we consider include, in part, the general macroeconomic environment, industry and market specific conditions for each reporting unit, financial performance including actual versus planned results and results of relevant prior periods, operating costs and cost impacts, as well as issues or events specific to the reporting unit. If qualitative factors are not sufficient to determine that the fair value of a reporting unit is more likely than not to exceed its carrying value, we will perform a quantitative test the reporting unit whereby we estimate the fair value of the reporting unit using an income approach or market approach, or a weighting of the two methods. Under the income approach, we estimate the fair value of our reporting unit based on the present value of future cash flows. Cash flow projections are based on Management's estimate of revenue growth rates and operating margins and take into consideration industry and market conditions

as well as company specific economic factors. The discount rate used is based on the weighted average cost of capital adjusted for the relevant risk associated with the business and the uncertainty associated with the reporting unit's ability to execute on the projected cash flows. Under the market approach, we estimate fair value based on market multiples of revenue and earnings derived from comparable public companies with operating characteristics that are similar to the reporting unit. When market comparables are not meaningful or available, we estimate the fair value of the reporting unit using only the income approach.

*2019 Interim Impairment Testing* - As a result of operating results below forecasts in the current period as well as a re-forecast of the Velocity business in which planned earnings and revenue fell below the forecasts of prior periods, we determined that a triggering event had occurred at Velocity Outdoor in the third quarter of 2019. We performed goodwill impairment testing at Velocity as of September 30, 2019. For the quantitative impairment test at Velocity, we utilized an income approach. Cash flow projections are based on management's estimate of revenue growth rates and operating margins, and take into consideration industry and market conditions as well as company specific economic factors. We used a weighted average cost of capital of 12.2% in the income approach. The discount rate used was based on the weighted average cost of capital adjusted for the relevant risk associated with business specific characteristics and Velocity's ability to execute on the projected cash flows. Based on the results of the impairment test, the fair value of Velocity did not exceed the carrying value, indicating that the goodwill at Velocity is impaired. The difference between the carrying value and fair value of the Velocity business was \$33.4 million, which the Company has recorded as impairment expense as of September 30, 2019. We expect to finalize the impairment test during the fourth quarter of 2019.

*2019 Annual Impairment Testing* - For our annual impairment testing at March 31, 2019, we determined that our Liberty operating segment required quantitative testing because we could not conclude that the fair value of Liberty significantly exceeded its carrying value based on qualitative factors alone. We concluded the goodwill impairment testing during the quarter ended June 30, 2019. The results of the quantitative impairment testing of the Liberty reporting unit indicated that the fair value of the Liberty reporting unit exceeded the carrying value by 135%. All of our other reporting units were tested qualitatively as of March 31, 2019, and the results of the qualitative analysis indicated that the fair value exceeded their carrying value.

For the reporting units that were tested qualitatively for the 2019 annual impairment testing, the results of the qualitative analysis indicated that it is more likely than not that the fair value exceeded their carrying value.

*2018 Annual Impairment Testing* - Our Arnold operating segment previously had three separate reporting units. As a result of changes implemented by Arnold management during 2016 and 2017, we reassessed the reporting units at Arnold as of the annual impairment testing date in 2018. The separate Arnold reporting units were determined to only comprise one reporting unit at the Arnold operating segment level as of March 31, 2018. As part of the exercise of combining the separate Arnold reporting units into one reporting unit, we performed "before" and "after" goodwill impairment testing, whereby we performed the annual impairment testing for each of the existing reporting units of Arnold and then subsequent to the completion of the annual impairment testing of the separate reporting units, we performed a quantitative impairment test of the Arnold operating segment. Two of the Arnold reporting units, PMAG and PTM, were tested qualitatively as part of the "before" test, while a quantitative impairment test was performed on the Flexmag reporting unit because we could not determine that it was more-likely than-not that the fair value of a reporting unit exceeded its carrying value. We then performed a quantitative impairment test of the Arnold operating segment, which combined the three reporting units. The results of the quantitative impairment testing of the Arnold reporting unit indicated that the fair value of the Arnold reporting unit exceeded the carrying value by 254%. All of our other reporting units were tested qualitatively as of March 31, 2018, and the results of the qualitative analysis indicated that the fair value exceeded their carrying value.

#### *Indefinite-lived intangible assets*

We use a qualitative approach to test indefinite lived intangible assets for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform quantitative impairment testing. Our indefinite-lived intangible assets consist of trade names with a carrying value of approximately \$60.0 million. The results of the qualitative analysis of our reporting unit's indefinite-lived intangible assets, which we completed as of March 31, 2019, indicated that the fair value of the indefinite lived intangible assets exceeded their carrying value.

#### Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued a comprehensive new revenue recognition standard. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising



from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In addition, the standard requires disclosure of the amount, timing and uncertainty of cash flows arising from contracts with customers. The new standard, and all related amendments, was effective for us beginning January 1, 2018 and was adopted using the modified retrospective method for all contracts not completed as of the date of adoption.

The adoption of the new revenue guidance represented a change in accounting principle that will more closely align revenue recognition with the transfer of control of our goods and services and will provide financial statement readers with enhanced disclosures. In accordance with the new revenue guidance, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for these goods or services, and excludes any sales incentives or taxes collected from customers which are subsequently remitted to government authorities.

The Company's contracts with customers often include promises to transfer multiple products to a customer. Determining whether the promises are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Once the performance obligations are identified, the Company determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. The Company then allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method. The corresponding revenues are recognized as the related performance obligations are satisfied as discussed above. Judgment is required to determine the standalone selling price for each distinct performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately and therefore observable.

Upon adoption of the new revenue guidance, the Company's policy around estimating variable consideration related to sales incentives (early pay discounts, rights of return, rebates, chargebacks, and other discounts) included in certain customer contracts remained consistent with previous guidance. These incentives are recorded as a reduction in the transaction price. Under the new guidance, variable consideration is estimated and included in total consideration at contract inception based on either the expected value method or the most likely outcome method. The method was applied consistently among each type of variable consideration and the Company applies the expected value method to estimate variable consideration. These estimates are based on historical experience, anticipated performance and the Company's best judgment at the time and as a result, reflect applicable constraints. The Company includes in the transaction price an amount of variable consideration estimated in accordance with the new guidance only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

#### Business Combinations

The acquisitions of our businesses are accounted for under the acquisition method of accounting. Accounting for business combinations requires the use of estimates and assumptions in determining the fair value of assets acquired and liabilities assumed in order to allocate the purchase price. The estimates of fair value of the assets acquired and liabilities assumed are based upon assumptions believed to be reasonable using established valuation methods, taking into consideration information supplied by the management of the acquired entities and other relevant information. The determination of fair values requires significant judgment both by our management team and, when appropriate, valuations by independent third-party appraisers. We amortize intangible assets, such as trademarks and customer relationships, as well as property, plant and equipment, over their economic useful lives, unless those lives are indefinite. We consider factors such as historical information, our plans for the asset and similar assets held by our previously acquired portfolio companies. The impact could result in either higher or lower amortization and/or depreciation expense.

#### **Recent Accounting Pronouncements**

Refer to [Note A - "Presentation and Principles of Consolidation"](#) of the condensed consolidated financial statements for a discussion of recent accounting pronouncements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to our market risk since December 31, 2018. For a further discussion of our exposure to market risk, refer to the section entitled "Quantitative and Qualitative Disclosures about Market Risk" that was disclosed in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on February 27, 2019.

#### **ITEM 4. CONTROLS AND PROCEDURES**

As required by Securities Exchange Act of 1934, as amended (the "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 Rules 13a-15(e) and 15d-15(e)), as of September 30, 2019. Based on that evaluation, the Holdings' Regular Trustees 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, 2019.

There have been no material changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II  
OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

There have been no material changes to those legal proceedings associated with the Company's and Holdings' business together with legal proceedings for the businesses discussed in the section entitled "Legal Proceedings" that was disclosed in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on February 27, 2019.

**ITEM 1A. RISK FACTORS**

There have been no material changes in those risk factors and other uncertainties associated with the Company and Holdings discussed in the section entitled "Risk Factors" that was disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on February 27, 2019.

**ITEM 6. EXHIBITS**

<u>Exhibit Number</u>	<u>Description</u>
31.1*	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant</a>
31.2*	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant</a>
32.1**	<a href="#">Certification of Chief Executive Officer of Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2**	<a href="#">Certification of Chief Financial Officer of Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page formatted as Inline XBRL and contained in Exhibit 101
*	Filed herewith.
+	In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibit 32.1 and Exhibit 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

**SIGNATURES**

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

COMPASS DIVERSIFIED HOLDINGS

By:           /s/ Ryan J. Faulkingham            
Ryan J. Faulkingham  
*Regular Trustee*

Date: October 30, 2019

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, 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/ Ryan J. Faulkingham            
Ryan J. Faulkingham  
*Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*

Date: October 30, 2019

## EXHIBIT INDEX

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## CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Elias J. Sabo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Compass Group Diversified Holdings LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2019

/s/ Elias J. Sabo

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Elias J. Sabo

Chief Executive Officer of  
Compass Group Diversified Holdings LLC  
(Principal Executive Officer)

**CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ryan J. Faulkingham, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Compass Diversified Holdings and Compass Group Diversified Holdings LLC (each, the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2019

/s/ Ryan J. Faulkingham

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Ryan J. Faulkingham

*Regular Trustee of Compass Diversified Holdings and Chief  
Financial Officer of  
Compass Group Diversified Holdings LLC  
(Principal Financial and Accounting Officer)*

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of COMPASS GROUP DIVERSIFIED HOLDINGS LLC on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elias J. Sabo, Chief Executive Officer of Compass Group Diversified Holdings LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Compass Group Diversified Holdings LLC.

Dated: October 30, 2019

/s/ Elias J. Sabo

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Elias J. Sabo

Chief Executive Officer,  
Compass Group Diversified Holdings LLC

The foregoing certification is being furnished to accompany Compass Group Diversified Holdings LLC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019 solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of Compass Group Diversified Holdings LLC that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to Compass Group Diversified Holdings LLC and will be retained by Compass Group Diversified Holdings LLC and furnished to the Securities and Exchange Commission or its staff upon request.



CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of COMPASS DIVERSIFIED HOLDINGS and COMPASS GROUP DIVERSIFIED HOLDINGS LLC on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ryan J. Faulkingham, Regular Trustee of Compass Diversified Holdings and Chief Financial Officer of Compass Group Diversified Holdings LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Compass Diversified Holdings and Compass Group Diversified Holdings LLC.

Dated: October 30, 2019

/s/ Ryan J. Faulkingham

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Ryan J. Faulkingham  
Regular Trustee, Compass Diversified Holdings and  
Chief Financial Officer,  
Compass Group Diversified Holdings LLC

The foregoing certification is being furnished to accompany Compass Diversified Holdings' and Compass Group Diversified Holdings LLC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019 solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of Compass Diversified Holdings and Compass Group Diversified Holdings LLC that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to Compass Diversified Holdings and Compass Group Diversified Holdings LLC and will be retained by Compass Diversified Holdings and Compass Group Diversified Holdings LLC and furnished to the Securities and Exchange Commission or its staff upon request.