

Edgar Filing: Compass Diversified Holdings - Form 10-Q

Compass Diversified Holdings
Form 10-Q
May 04, 2016
Table of Contents

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 March 31, 2016

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 001-34927 57-6218917
(State or other jurisdiction of (Commission (I.R.S. employer
incorporation or organization) file number) identification number)

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Delaware 001-34926 20-3812051
(State or other jurisdiction of (Commission (I.R.S. employer
incorporation or organization) file number) identification number)

Sixty One Wilton Road

Second Floor

Westport, CT 06880

(203) 221-1703

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

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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 April 29, 2016, there were 54,300,000 shares of Compass Diversified Holdings outstanding.

Table of Contents

COMPASS DIVERSIFIED HOLDINGS
 QUARTERLY REPORT ON FORM 10-Q
 For the period ended March 31, 2016
 TABLE OF CONTENTS

	Page Number
	<u>4</u>
Part I	
Item 1.	
	<u>5</u>
	<u>6</u>
	<u>7</u>
	<u>8</u>
	<u>9</u>
	<u>11</u>
Item 2.	<u>33</u>
Item 3.	<u>58</u>
Item 4.	<u>58</u>
Part II	
Item 1.	<u>59</u>
Item 1A.	<u>59</u>
Item 6.	<u>60</u>
<u>Signatures</u>	<u>61</u>

Table of Contents

NOTE TO READER

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

- the "Trust" and "Holdings" refer to Compass Diversified Holdings;
- "businesses," "operating segments," "subsidiaries" and "reporting units" refer to, collectively, the businesses controlled by the Company;
- the "Company" refer to Compass Group Diversified Holdings LLC;
- the "Manager" refer to Compass Group Management LLC ("CGM");
- the "initial businesses" refer to, collectively, Staffmark Holdings, Inc. ("Staffmark"), Crosman Acquisition Corporation, Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits") and Silvue Technologies Group, Inc.;
- the "2014 acquisitions" refer to, collectively, the acquisitions of Clean Earth Holdings, Inc. and Sterno Products;
- the "2015 acquisition" refer to the acquisition of Fresh Hemp Foods Ltd. ("Manitoba Harvest")
- the "2015 dispositions" refer to, collectively, the sales of CamelBak Acquisition Corp. ("CamelBak") and AFM Holding Corp. ("American Furniture" or "AFM")
- the "Trust Agreement" refer to the amended and restated Trust Agreement of the Trust dated as of November 1, 2010;
- the "2011 Credit Facility" refer to a credit agreement (as amended) with a group of lenders led by Toronto Dominion (Texas) LLC, as agent, which provided for the 2011 Revolving Credit Facility and the 2011 Term Loan Facility;
- the "2014 Credit Facility" refer to the credit agreement, as amended from time to time, entered into on June 6, 2014 with a group of lenders led by Bank of America N.A. as administrative agent, which provides for the 2014 Revolving Credit Facility and the 2014 Term Loan Facility;
- the "2014 Revolving Credit Facility" refer to the \$400 million Revolving Credit Facility provided by the 2014 Credit Facility that matures in June 2019;
- the "2014 Term Loan" refer to the \$325 million Term Loan Facility, provided by the Credit Facility that matures in June 2021;
- the "LLC Agreement" refer to the fourth amended and restated operating agreement of the Company dated as of January 1, 2012; and
- "we," "us" and "our" refer to the Trust, the Company and the businesses together.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, contains both historical and forward-looking statements. We may, in some cases, use words such as "project," "predict," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "potentially," or "may," or other 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.

Table of Contents

PART I

FINANCIAL INFORMATION

ITEM 1. — FINANCIAL STATEMENTS

Compass Diversified Holdings

Condensed Consolidated Balance Sheets

(in thousands)	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$72,567	\$ 85,869
Accounts receivable, net	127,432	114,320
Inventories	78,994	68,371
Prepaid expenses and other current assets	20,610	22,803
Total current assets	299,603	291,363
Property, plant and equipment, net	118,085	118,050
Equity method investment (refer to Note F)	191,439	249,747
Goodwill	413,735	398,488
Intangible assets, net	358,373	353,404
Other non-current assets	11,004	9,990
Total assets	\$ 1,392,239	\$ 1,421,042
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$52,651	\$ 50,403
Accrued expenses	43,301	47,959
Due to related party	250	5,863
Current portion, long-term debt	3,250	3,250
Other current liabilities	9,974	9,004
Total current liabilities	109,426	116,479
Deferred income taxes	105,608	103,745
Long-term debt	308,208	308,639
Other non-current liabilities	27,441	18,960
Total liabilities	550,683	547,823
Stockholders' equity		
Trust shares, no par value, 500,000 authorized; 54,300 shares issued and outstanding at March 31, 2016 and December 31, 2015	823,736	825,321
Accumulated other comprehensive loss	(5,107) (9,804
Accumulated (deficit) earnings	(25,004) 10,567
Total stockholders' equity attributable to Holdings	793,625	826,084
Noncontrolling interest	47,931	47,135
Total stockholders' equity	841,556	873,219
Total liabilities and stockholders' equity	\$ 1,392,239	\$ 1,421,042
See notes to condensed consolidated financial statements.		

Table of ContentsCompass Diversified Holdings
Condensed Consolidated Statements of Operations
(unaudited)

	Three months ended March 31,	
	2016	2015
(in thousands, except per share data)		
Net sales	\$ 169,761	\$ 144,296
Service revenues	38,286	35,129
Total net revenues	208,047	179,425
Cost of sales	112,235	99,032
Cost of service revenues	29,551	27,823
Gross profit	66,261	52,570
Operating expenses:		
Selling, general and administrative expense	44,473	33,026
Management fees	6,458	6,733
Amortization expense	7,826	7,822
Impairment expense	—	8,907
Operating income (loss)	7,504	(3,918)
Other income (expense):		
Interest expense, net	(11,462)	(9,717)
Amortization of debt issuance costs	(570)	(545)
Loss on equity method investment	(10,623)	(13,447)
Other income, net	3,420	10
Loss from continuing operations before income taxes	(11,731)	(27,617)
Provision for income taxes	3,296	2,393
Loss from continuing operations	(15,027)	(30,010)
Income from discontinued operations, net of income tax	—	4,723
Net loss	(15,027)	(25,287)
Less: Net income (loss) attributable to noncontrolling interest	996	(526)
Less: Income from discontinued operations attributable to noncontrolling interest	—	141
Net loss attributable to Holdings	\$(16,023)	\$(24,902)
Amounts attributable to Holdings		
Loss from continuing operations	(16,023)	(29,484)
Income from discontinued operations, net of income tax	—	4,582
Net loss attributable to Holdings	\$(16,023)	\$(24,902)
Basic and fully diluted income (loss) per share attributable to Holdings (refer to Note L)		
Continuing operations	\$(0.31)	\$(0.55)
Discontinued operations	—	0.08
	\$(0.31)	\$(0.47)
Weighted average number of shares of trust stock outstanding – basic and fully diluted	54,300	54,300
Cash distributions declared per share (refer to Note L)	\$0.36	\$0.36

See notes to condensed consolidated financial statements.

Table of ContentsCompass Diversified Holdings
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

	Three months ended	
	March 31,	
	2016	2015
(in thousands)		
Net loss	\$(15,027)	\$(25,287)
Other comprehensive income (loss)		
Foreign currency translation adjustments	5,220	(90)
Pension benefit liability, net	(523)	(60)
Other comprehensive income (loss)	4,697	(150)
Total comprehensive income, net of tax	(10,330)	(25,437)
Less: Net income (loss) attributable to noncontrolling interests	996	(385)
Less: Other comprehensive income (loss) attributable to noncontrolling interests	1,226	(5)
Total comprehensive loss attributable to Holdings, net of tax	\$(12,552)	\$(25,047)
See notes to condensed consolidated financial statements.		

Table of ContentsCompass Diversified Holdings
Condensed Consolidated Statement of Stockholders' Equity
(unaudited)

(in thousands)	Number of Shares	Amount	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Stockholders' Equity Attributable to Holdings	Non- Controlling Interest	Total Stockholders' Equity
Balance — January 1, 2016	54,300	\$825,321	\$ 10,567	\$ (9,804)	\$ 826,084	\$ 47,135	\$ 873,219
Net income (loss)	—	—	(16,023)	—	(16,023)	996	(15,027)
Total comprehensive income, net	—	—	—	4,697	4,697	—	4,697
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	1,189	1,189
Effect of subsidiary stock options exercise	—	(578)	—	—	(578)	4,333	3,755
Purchase of noncontrolling interest - Liberty (refer to Note N)	—	(1,007)	—	—	(1,007)	(469)	(1,476)
Distributions to noncontrolling shareholders - Liberty (refer to Note N)	—	—	—	—	—	(5,253)	(5,253)
Distributions paid	—	—	(19,548)	—	(19,548)	—	(19,548)
Balance — March 31, 2016	54,300	\$823,736	\$ (25,004)	\$ (5,107)	\$ 793,625	\$ 47,931	\$ 841,556

See notes to condensed consolidated financial statements.

Table of ContentsCompass Diversified Holdings
Condensed Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Three months ended	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(15,027)	\$(25,287)
Income from discontinued operations	—	4,723
Net loss from continuing operations	(15,027)	(30,010)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	5,859	5,549
Amortization expense	9,049	7,822
Impairment expense	—	8,907
Amortization of debt issuance costs and original issue discount	738	713
Unrealized loss on interest rate swap	7,228	4,314
Noncontrolling stockholder stock based compensation	1,189	795
Loss on equity method investment	10,623	13,447
Deferred taxes	214	(1,095)
Other	(61)	390
Changes in operating assets and liabilities, net of acquisition:		
Decrease in accounts receivable	6,307	10,159
Increase in inventories	(1,170)	(1,769)
Decrease (increase) in prepaid expenses and other current assets	(610)	418
Decrease in accounts payable and accrued expenses	(18,314)	(21,285)
Net cash provided by (used in) operating activities - continuing operations	6,025	(1,645)
Net cash provided by operating activities - discontinued operations	—	4,932
Cash provided by operating activities	6,025	3,287
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(35,553)	—
Purchases of property and equipment	(4,406)	(3,657)
Net proceeds from sale of equity investment	47,685	—
Payment of interest rate swap	(500)	(495)
Purchase of noncontrolling interest (refer to Note N)	(1,476)	—
Other investing activities	97	125
Net cash provided by (used in) investing activities - continuing operations	5,847	(4,027)
Net cash used in investing activities - discontinued operations	—	(1,133)
Cash provided by (used in) investing activities	5,847	(5,160)

Table of ContentsCompass Diversified Holdings
Condensed Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Three months ended March 31,	
	2016	2015
Cash flows from financing activities:		
Borrowings under credit facility	—	35,500
Repayments under credit facility	(813)	(17,038)
Distributions paid	(19,548)	(19,548)
Net proceeds provided by noncontrolling shareholders (refer to Note N)	3,755	—
Distributions paid to noncontrolling shareholders (refer to Note N)	(5,253)	—
Other	(282)	(227)
Net cash used in financing activities	(22,141)	(1,313)
Foreign currency impact on cash	(3,033)	(67)
Net decrease in cash and cash equivalents	(13,302)	(3,253)
Cash and cash equivalents — beginning of period ⁽¹⁾	85,869	23,703
Cash and cash equivalents — end of period ⁽²⁾	\$72,567	\$20,450

(1) Includes cash from discontinued operations of \$1.8 million at January 1, 2015.

(2) Includes cash from discontinued operations of \$3.1 million at March 31, 2015.

See notes to condensed consolidated financial statements.

Table of Contents

Compass Diversified Holdings
Notes to Condensed Consolidated Financial Statements (unaudited)
March 31, 2016

Note A — Organization and Business Operations

Compass Diversified Holdings, a Delaware statutory trust (the "Trust" or "Holdings"), was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability company (the "Company" or "CODI"), was also formed on November 18, 2005 with equity interests which were subsequently reclassified as the "Allocation Interests". The Trust and the Company were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. In accordance with the amended and restated Trust Agreement, dated as of April 25, 2006 (the "Trust Agreement"), the Trust is sole owner of 100% of the Trust Interests (as defined in the Company's amended and restated operating agreement, dated as of April 25, 2006 (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 March 31, 2016. The segments are as follows: The Ergo Baby Carrier, Inc. ("Ergobaby"), Liberty Safe and Security Products, Inc. ("Liberty Safe" or "Liberty"), Fresh Hemp Foods Ltd. ("Manitoba Harvest"), Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits"), AMT Acquisition Corporation ("Arnold" or "Arnold Magnetics"), Clean Earth Holdings, Inc. ("Clean Earth"), Candle Lamp Company, LLC ("Sterno Products") and Tridien Medical, Inc. ("Tridien"). Refer to Note E for further discussion of the operating segments. The Company also owns a non-controlling interest of approximately 33.1% in Fox Factory Holding Corp. ("FOX") which is accounted for as an equity method investment. 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").

Note B — Presentation and Principles of Consolidation

The condensed consolidated financial statements for the three month periods ended March 31, 2016 and March 31, 2015, are unaudited, and in the opinion of management, contain all adjustments necessary for a fair presentation of the condensed consolidated financial statements. Such adjustments consist solely of normal recurring items. Interim results are not necessarily indicative of results for a full year or any subsequent interim period. The condensed consolidated financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of the Company. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Seasonality

Earnings of certain of the Company's operating segments are seasonal in nature. Earnings from Liberty are typically lowest in the second quarter due to lower demand for safes at the onset of summer. Earnings from Clean Earth are typically lower in the winter months due to reduced levels of construction and development activity in the Northeastern United States. Sterno Products typically has higher sales in the second and fourth quarter of each year, reflecting the outdoor summer season and the holiday season.

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

The Company completed the sale of its majority owned subsidiary, CamelBak Products, LLC ("CamelBak") during the third quarter of 2015. In October 2015, the Company sold its majority owned subsidiary, American Furniture Manufacturing, Inc. ("AFM" or "American Furniture") which met the criteria to be classified as a discontinued operation as of September 30, 2015. As a result, the Company reported the results of operations of CamelBak and American Furniture as discontinued operations in the condensed consolidated statements of operations for the three months ended March 31, 2015. Refer to Note D for additional information. Unless otherwise indicated, the disclosures accompanying the condensed consolidated financial statements reflect the Company's continuing operations.

Table of Contents

Recently Adopted Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standard update to simplify the presentation of deferred taxes by requiring companies to classify all deferred tax assets and liabilities, along with any related valuation allowances, as noncurrent on the balance sheet. Adoption of this standard is required for annual periods beginning after December 15, 2016 and early adoption is permitted. The Company adopted this guidance early, effective as of January 1, 2016, on a prospective basis, which is permitted under the standard. At January 1, 2016, the Company had \$6.1 million classified as current deferred tax assets which was reclassified to long-term deferred tax assets, and no amount classified as current deferred tax liabilities.

In September 2015, the FASB issued an accounting standard to simplify the accounting for measurement period adjustments in connection with business combinations by requiring that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The standard update is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The standard update is to be applied prospectively to adjustments of provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The adoption of this standard did not have a significant impact on our condensed consolidated financial statements. The amendment was effective for the Company on January 1, 2016.

In April 2015, the FASB issued an accounting standard update intended to simplify the presentation of debt issuance costs in the balance sheet. The new guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. In August 2015, the FASB issued additional guidance which addresses the Security and Exchange Commission's ("SEC") comments related to the absence of authoritative guidance within the accounting standard update related to line-of-credit arrangements. The SEC would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance cost ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings under the line of credit arrangement. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Retrospective adoption is required. The Company adopted this guidance on January 1, 2016 and has reclassified debt issuance costs associated with the Company's term debt of \$4.4 million and \$4.6 million as of March 31, 2016 and December 31, 2015, respectively, from long-term assets to long-term debt. Deferred debt issuance costs incurred in connection with the Company's revolving credit facility of \$4.5 million and \$4.9 million at March 31, 2016 and December 31, 2015, respectively, continue to be classified as long-term assets.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued an accounting standard update related to the accounting for leases which will require 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. For public companies, the new standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires modified retrospective adoption, with early adoption permitted. Accordingly, this standard is effective for the Company on January 1, 2019. The Company is currently assessing impact of the new standard on our consolidated financial statements.

In July 2015, the FASB issued an accounting standard update intended to simplify the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. The new guidance applies only to inventory that is determined by methods other than last-in-first-out and the retail inventory method.

The Company does not believe that the adoption of this new accounting guidance will have a significant impact on its consolidated financial statements. The guidance is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption of the guidance is permitted.

In May 2014, the FASB issued a comprehensive new revenue recognition standard. The new standard outlines a new, 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. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries, jurisdictions and capital markets and also requires enhanced disclosures. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual

Table of Contents

reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Note C — Acquisitions

Acquisition of Manitoba Harvest

On July 10, 2015, FHF Holdings Ltd., a majority owned subsidiary of the Company, and 1037269 B.C. Ltd., a wholly owned subsidiary of FHF Holdings Ltd. (together, the "Buyer"), closed on the acquisition of all the issued and outstanding capital stock of Fresh Hemp Foods Ltd. ("Manitoba Harvest"). Subsequent to the closing, 1037269 B.C. Ltd. merged with and into Manitoba Harvest. Headquartered in Winnipeg, Manitoba, Manitoba Harvest is a global leader in branded, hemp-based foods.

The Company made loans to and purchased an 87% controlling interest in Manitoba Harvest. The purchase price, including proceeds from noncontrolling interest, was approximately \$102.7 million (C\$130.3 million). Manitoba Harvest management and a minority shareholder invested in the transaction along with the Company representing approximately 13% initial noncontrolling interest on a primary basis. The fair value of the noncontrolling interest was determined based on enterprise value of the acquired entity multiplied by the ratio number of shares acquired by the minority shareholders to total shares. The transaction was accounted for as a business combination. CGM acted as an advisor to the Company in the acquisition and will continue to provide integration services during the first year of the Company's ownership of Manitoba Harvest. CGM will receive integration services fees of \$1.0 million which is payable quarterly during the twelve month period subsequent to acquisition as services are rendered.

The results of operations of Manitoba Harvest have been included in the consolidated results of operations since the date of acquisition. Manitoba Harvest's results of operations are reported as a separate operating segment. The table below provides the recording of assets acquired and liabilities assumed as of the acquisition date.

Manitoba Harvest

(in thousands)

Assets:

Cash	\$164
Accounts receivable	3,787
Inventory ⁽¹⁾	8,743
Property, plant and equipment	8,203
Goodwill	37,882
Intangible assets	63,687
Other current and noncurrent assets	986
Total assets	\$123,452

Liabilities and noncontrolling interest:

Current liabilities	\$3,267
Deferred tax liabilities	16,593
Other liabilities	23,332
Noncontrolling interest	7,638
Total liabilities and noncontrolling interest	\$50,830

Net assets acquired	\$72,622
Noncontrolling interest	7,638
Intercompany loans to business	23,593

\$103,853

Table of Contents

Acquisition Consideration	
Purchase price	\$ 104,437
Working capital adjustment	(584)
Total purchase consideration	\$ 103,853
Less: Transaction costs	1,145
Purchase price, net	\$ 102,708

⁽¹⁾ Includes \$3.1 million of step-up in the basis of inventory.

The Company incurred \$1.1 million of transaction costs in conjunction with the acquisition of Manitoba Harvest during 2015 which were included in selling, general and administrative expenses in the consolidated statements of income during the year ended December 31, 2015. The goodwill of \$37.9 million, which is not expected to be deductible for tax purposes, reflects the strategic fit of Manitoba Harvest into the Company's branded products businesses.

The values assigned to the identified intangible assets were determined by discounting estimated future cash flows associated with these assets to their present value. The intangible assets recorded in connection with the Manitoba Harvest acquisition are as follows (in thousands):

Intangible assets	Amount	Estimated Useful Life
Tradename (unamortizable)	\$ 13,005	N/a
Technology and processes	9,616	10 years
Customer relationships	41,066	15 years
	\$63,687	

Unaudited pro forma information

The following unaudited pro forma data for the three months ended March 31, 2015 gives effect to the acquisition of Manitoba Harvest, as described above, as if the acquisition had been completed as of January 1, 2015, and the sale of CamelBak and AFM as if the dispositions had been completed on January 1, 2015. The pro forma data gives effect to historical operating results with adjustments to interest expense, amortization and depreciation expense, management fees and related tax effects. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transaction had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representing results for any future period.

(in thousands)	Three months ended March 31, 2015
Net sales	\$ 190,055
Operating loss	(3,870)
Net loss	(30,643)
Net loss attributable to Holdings	(30,152)
Basic and fully diluted net loss per share attributable to Holdings	\$(0.57)

Other acquisitions

Sterno Products

On January 22, 2016, Sterno Products, a wholly owned subsidiary of the company, acquired all of the outstanding stock of Northern International, Inc. (NII), for a total purchase price of approximately \$35.8 million (C\$50.6 million), plus a potential earn-out opportunity payable over the next two years up to a maximum amount of \$1.8 million (C\$2.5 million), and is subject to working

Table of Contents

capital adjustments. The contingent consideration was fair valued on a preliminary basis at \$1.5 million, based on probability weighted models of the achievement of certain performance based financial targets. Refer to Note K - "Fair Value Measurements." for a description of the valuation technique used to fair value the contingent consideration. Headquartered in Coquitlam, British Columbia, Canada, NII sells flameless candles and outdoor lighting products through the retail segment. Sterno Products financed the acquisition and payment of the related transaction costs through the issuance of an additional \$37.0 million in inter-company loans with the Company. In connection with the acquisition, Sterno recorded a preliminary purchase price allocation of \$11.6 million of goodwill, which is not expected to be deductible for income tax purposes, \$8.8 in intangible assets and \$1.2 million in inventory step-up. In addition, the earn-out provision of the purchase price was allocated a fair value of \$1.5 million. The remainder of the purchase consideration was allocated to net assets acquired less net liabilities assumed. Sterno Products incurred \$0.4 million in acquisition related costs in connection with the NII acquisition. The Company expects to finalize the purchase price allocation for NII during 2016 within the measurement period.

Manitoba Harvest

On December 15, 2015, the Company's Manitoba Harvest subsidiary completed the acquisition of Hemp Oil Canada, Inc. (HOCI), for a purchase price of \$30.8 million (C\$42.0 million). HOCI is a bulk wholesale producer, private label packager and custom processor of hemp food product ingredients, located in Ste. Agathe, Manitoba. Manitoba Harvest incurred \$0.4 million (C\$0.5 million) of acquisition related costs for the HOCI acquisition which are recorded in selling, general and administrative expenses in the consolidated results of operation for the year ending December 31, 2015. The purchase price is subject to standard working capital adjustments. In connection with the acquisition of HOCI, certain of the selling shareholders of HOCI invested \$6.8 million (C\$9.3 million) in Manitoba Harvest in exchange for approximately 11% noncontrolling interest in Manitoba Harvest. The Company has not completed the preliminary allocation of the purchase price and has recorded the excess of the purchase price over the assets acquired as goodwill at March 31, 2016. The Company expects to finalize the purchase price allocation for HOCI during 2016 within the measurement period.

Note D - Discontinued operations

Sale of CamelBak

On August 3, 2015, the Company sold its majority owned subsidiary, CamelBak, based on a total enterprise value of \$412.5 million. The CamelBak purchase agreement contains customary representations, warranties, covenants and indemnification provisions, and the transaction is subject to customary working capital adjustments.

The Company received approximately \$367.8 million in cash related to its debt and equity interests in CamelBak after payments to noncontrolling shareholders and payment of all transaction expenses. The Company recognized a gain of \$164.0 million, net of tax, during 2015 as a result of the sale of CamelBak.

Sale of AFM

On October 5, 2015, the Company sold its majority owned subsidiary, American Furniture, for a sale price of \$24.1 million. The Company received approximately \$23.5 million in net proceeds related to its debt and equity interests in American Furniture after payment of all transaction expenses. The Company recognized a loss on the sale of American Furniture of \$14.3 million during 2015.

Summarized operating results of discontinued operations for the three months ended March 31, 2015 are as follows:

Table of Contents

(in thousands)	Three months ended March 31, 2015		
	CamelBak	American Furniture	Total discontinued operations
Net sales	\$36,922	\$40,925	\$77,847
Gross profit	15,232	4,115	19,347
Operating income	4,351	1,676	6,027
Income from continuing operations before income taxes	4,029	1,681	5,710
Provision for income taxes	987	—	987
Income from discontinued operations ⁽¹⁾	\$3,042	\$1,681	\$4,723

⁽¹⁾ The results for the three months ended March 31, 2015 exclude \$2.2 million of intercompany interest expense.

Note E — Operating Segment Data

At March 31, 2016, 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:

Ergobaby is a premier designer, marketer and distributor of wearable baby carriers and related baby wearing products, as well as infant travel systems (strollers, car seats and accessories). Ergobaby offers a broad range of wearable baby carriers, infant travel systems and related products that are sold through more than 450 retailers and web shops in the United States and throughout the world. Ergobaby has two main product lines: baby carriers (baby carriers and accessories) and infant travel systems (strollers, car seats and accessories). 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 314,000 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.

Manitoba Harvest is a pioneer and leader in the manufacture and distribution of branded, hemp-based foods. Manitoba Harvest's products, which include Hemp Hearts™, Hemp Heart Bites™, Hemp Heart Bars™, and Hemp protein powders, are currently carried in over 7,000 retail stores across the U.S. and Canada. Manitoba Harvest is headquartered in Winnipeg, Manitoba.

Advanced Circuits, an electronic components manufacturing company, is a provider of 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 Magnetics is a leading global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets, including energy, medical, aerospace and defense, consumer electronics, general industrial and automotive. Arnold Magnetics produces high performance permanent magnets (PMAG), flexible magnets (FlexMag) and precision foil products (Precision Thin Metals) 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 Magnetics is headquartered in Rochester, New York.

Clean Earth provides environmental services for a variety of contaminated materials including soils, dredged material, hazardous waste and drill cuttings. Clean Earth analyzes, treats, documents and recycles waste streams generated in multiple end-markets such as power, construction, oil and gas, infrastructure, industrial and dredging. Clean Earth is headquartered in Hatboro, Pennsylvania and operates 14 facilities in the eastern United States.

Sterno Products is a manufacturer and marketer of portable food warming fuel and creative table lighting solutions for the food service industry. Sterno Products's products include wick and gel chafing fuels, butane stoves and accessories, liquid and traditional wax candles, catering equipment and lamps. Sterno Products is headquartered in Corona, California.

Table of Contents

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

The tabular information that follows shows data for each of the operating segments reconciled to amounts reflected in the consolidated financial statements. The results of operations of each of the operating segments are included in consolidated operating results as of their date of acquisition. FOX was an operating segment of the Company until July 10, 2014, when FOX was deconsolidated and became an equity method investment.

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

A disaggregation of the Company's consolidated revenue and other financial data for the three months ended March 31, 2016 and 2015 is presented below (in thousands):

Net sales of operating segments	Three months ended	
	March 31,	
	2016	2015
Ergobaby	\$19,415	\$20,668
Liberty	29,000	25,854
Manitoba Harvest	13,717	—
ACI	21,517	21,418
Arnold Magnetics	27,383	31,188
Clean Earth	38,286	35,129
Sterno Products	43,969	28,604
Tridien	14,760	16,564
Total	208,047	179,425
Reconciliation of segment revenues to consolidated revenues:		
Corporate and other	—	—
Total consolidated revenues	\$208,047	\$179,425

Table of Contents

Profit (loss) of operating segments ⁽¹⁾	Three months ended March 31,	
	2016	2015
Ergobaby	\$4,090	\$5,406
Liberty	4,841	1,404
Manitoba Harvest	363	—
ACI	5,832	5,721
Arnold Magnetics	626	1,754
Clean Earth	(958)	(1,554)
Sterno Products	2,412	1,656
Tridien	(577)	(8,692)
Total	16,629	5,695
Reconciliation of segment profit to consolidated income (loss) before income taxes:		
Interest expense, net	(11,462)	(9,717)
Other income, net	3,420	10
Loss on equity method investment	(10,623)	(13,447)
Corporate and other ⁽²⁾	(9,695)	(10,158)
Total consolidated loss before income taxes	\$(11,731)	\$(27,617)

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

(2) Primarily relates to management fees expensed and payable to CGM, and corporate overhead expenses.

	Accounts Receivable		Identifiable Assets		Depreciation and Amortization Expense Three months ended March 31,	
	March 31, 2016	December 31, 2015	March 31, 2016 ⁽¹⁾	December 31, 2015 ⁽¹⁾	2016	2015
Ergobaby	\$11,130	\$ 8,076	\$59,417	\$ 62,436	\$ 835	\$ 850
Liberty	12,783	12,941	29,255	31,395	656	1,592
Manitoba Harvest	8,262	5,512	88,769	88,541	1,314	—
ACI	6,747	5,946	18,421	17,275	841	757
Arnold Magnetics	18,006	15,083	69,013	72,310	2,237	2,194
Clean Earth	33,927					