Compass Diversified Holdings
Form 10-K
February 27, 2019

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

Form 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-34927

Compass Diversified Holdings
(Exact name of registrant as specified in its charter)

Delaware	57-6218917
(Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Commission File Number: 001-34926

Compass Group Diversified Holdings LLC
(Exact name of registrant as specified in its charter)

Delaware	20-3812051
(Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

301 Riverside Avenue Second Floor Westport, CT	06880
(Address of principal executive offices)	(Zip Code)

(203) 221-1703
(Registrants' telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Shares representing beneficial interests in Compass Diversified Holdings ("common shares")	New York Stock Exchange
Series A Preferred Shares representing Series A Trust Preferred Interest in Compass Diversified Holdings ("Series A Preferred Shares")	New York Stock Exchange
Series B Preferred Shares representing Series B Trust Preferred Interest in Compass Diversified Holdings ("Series B Preferred Shares")	New York Stock Exchange

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

Indicate by check mark if the registrants are collectively a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrants are collectively not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate website, 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 registrants were required to submit and post such files). Yes þ No ¨

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

Indicate by check mark whether the registrants are collectively 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. (Check one):

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

If an emerging growth company, indicate by check mark if the registrants have 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 registrants are collectively a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the outstanding common shares of trust stock held by non-affiliates of Compass Diversified Holdings at June 30, 2018 was $878,535,519 based on the closing price on the New York Stock Exchange on that date. For purposes of the foregoing calculation only, all directors and officers of the registrant have been deemed affiliates. There were 59,900,000 common shares of trust stock without par value outstanding at February 22, 2019.

Documents Incorporated by Reference

Certain information in the registrant's definitive proxy statement to be filed with the Commission relating to the registrant's 2019 Annual Meeting of Shareholders is incorporated by reference into Part III.

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NOTE TO READER

In reading this Annual Report on Form 10-K, 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” all 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 June 2021;
- the “LLC Agreement” refer to the fifth amended and restated operating agreement of the Company dated as of December 6, 2016;
- “we”, “us” and “our” refer to the Trust, the Company and the businesses together.

Statement Regarding Forward-Looking Disclosure

This Annual Report on Form 10-K, including the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” contains forward-looking statements. We may, in some cases, use words such as “project,” “predict,” “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “sho “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 Annual Report on Form 10-K 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 any future acquisitions;
- our ability to remove our Manager and our Manager’s right to resign;
- our trust and 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 our ability to make distributions in the future to our shareholders;
- our ability to pay the management fee, and profit allocation 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 our Manager’s ability to retain or replace qualified employees of our businesses and our Manager;
- 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. A description of some of the risks that could cause our actual results to differ appears under the section “Risk Factors”. 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 Annual Report on Form 10-K may not occur. These forward-looking statements are made as of the date of this Annual Report. 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

ITEM 1. BUSINESS

Compass Diversified Holdings, a Delaware statutory trust ("Holdings", or the "Trust"), was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability Company (the "Company"), was also formed on November 18, 2005. The Trust and the Company (collectively "CODI") were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. The Trust is the sole owner of 100% of the Trust Interests, as defined in our LLC Agreement, of the Company. Pursuant to the LLC Agreement, the Trust owns an identical number of Trust Interests in the Company as exist for the number of outstanding shares of the Trust. Accordingly, our shareholders are treated as beneficial owners of Trust Interests in the Company and, as such, are subject to tax under partnership income tax provisions.

The Company is the operating entity with a board of directors whose corporate governance responsibilities are similar to that of a Delaware corporation. The Company's board of directors oversees the management of the Company and our businesses and the performance of Compass Group Management LLC ("CGM" or our "Manager"). Certain persons who are employees and partners of our Manager receive a profit allocation as beneficial owners of 49.0% through Sostratus LLC of the Allocation Interests in us, as defined in our LLC Agreement.

Overview

We acquire controlling interests in and actively manage businesses that we believe (i) operate in industries with long-term macroeconomic growth opportunities, (ii) have positive and stable cash flows, (iii) face minimal threats of technological or competitive obsolescence, and (iv) have strong management teams largely in place.

Our unique public structure provides investors with an opportunity to participate in the ownership and growth of companies which have historically been owned by private equity firms, wealthy individuals or families. Through the acquisition of a diversified group of businesses with these characteristics, we believe we offer investors an opportunity to diversify their own portfolio risk while participating in the ongoing cash flows of those businesses through the receipt of quarterly distributions.

Our disciplined approach to our target market provides opportunities to methodically purchase attractive businesses at values that are accretive to our shareholders. For sellers of businesses, our unique financial structure allows us to acquire businesses efficiently with little or no third party financing contingencies and, following acquisition, to provide our businesses with substantial access to growth capital.

We believe that private company operators and corporate parents looking to sell their business units may consider us an attractive purchaser because of our ability to:

- provide ongoing strategic and financial support for their businesses;
- maintain a long-term outlook as to the ownership of those businesses where such an outlook is required for maximization of our shareholders' return on investment; and
- consummate transactions efficiently without being dependent on third-party transaction financing.

In particular, we believe that our outlook on length of ownership and active management on our part may alleviate the concern that many private company operators and parent companies may have with regard to their businesses going through multiple sale processes in a short period of time. We believe this outlook reduces both the risk that businesses may be sold at unfavorable points in the overall market cycle and enhances our ability to develop a comprehensive strategy to grow the earnings and cash flows of each of our businesses, which we expect will better enable us to meet our long-term objective of continuing to pay distributions to our shareholders while increasing shareholder value.

Finally, it has been our experience, that our ability to acquire businesses without the cumbersome delays and conditions typical of third party transactional financing is appealing to sellers of businesses who are interested in confidentiality and certainty to close.

We believe our management team's strong relationships with industry executives, accountants, attorneys, business brokers, commercial and investment bankers, and other potential sources of acquisition opportunities offer us substantial opportunities to assess small to middle market businesses available for acquisition. In addition, the flexibility, creativity, experience and expertise of our management team in structuring transactions allows us to consider non-traditional and complex transactions tailored to fit a specific acquisition target.

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In terms of the businesses in which we have a controlling interest as of December 31, 2018, we believe that these businesses have strong management teams, operate in strong markets with defensible market niches and maintain long-standing customer relationships.

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 a brief summary of the businesses in which we own a controlling interest at December 31, 2018:

Branded Consumer Businesses

5.11

5.11 ABR Corp. ("5.11 Tactical" or "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. 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. We made loans to and purchased a controlling interest in 5.11 Tactical for approximately $408.2 million in August 2016. We currently own 97.5% of the outstanding stock of 5.11 on a primary basis and 88.7% on a fully diluted basis.

Ergobaby

Ergobaby Carrier, Inc. (“Ergobaby”), headquartered in Los Angeles, California, 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. We made loans to, and purchased a controlling interest in, Ergobaby on September 16, 2010 for approximately $85.2 million. We currently own 81.9% of the outstanding stock of Ergobaby on a primary basis and 76.4% on a fully diluted basis.

Liberty Safe

Liberty Safe and Security Products, Inc. (“Liberty Safe” or “Liberty”), headquartered in Payson, Utah, is a designer, manufacturer and marketer of premium home, office and gun 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. We made loans to, and purchased a controlling interest in, Liberty Safe on March 31, 2010 for approximately $70.2 million. We currently own 88.6% of the outstanding stock of Liberty Safe on a primary basis and 85.2% on a fully diluted basis.

Manitoba Harvest

Fresh Hemp Foods Ltd. ("Manitoba Harvest" or "Manitoba"), headquartered in Winnipeg, Manitoba, is a pioneer and leader in the manufacture and distribution of branded, hemp-based foods and hemp-based ingredients. Manitoba Harvest’s products, which include Hemp Hearts™, Hemp Heart Bites™, and Hemp protein powders, are currently carried in approximately 13,000 retail stores across the United States and Canada. We made loans to, and purchased a controlling interest in, Manitoba Harvest on July 10, 2015 for approximately $102.7 million (C$130.3 million). We currently own 76.6% of the outstanding stock of Manitoba Harvest on a primary basis and 68.1% on a fully diluted basis.

Velocity Outdoor

Velocity Outdoor Inc. ("Velocity Outdoor" or "Velocity") (formerly Crosman Corp.) 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, LaserMax, Ravin and CenterPoint brands that are available through national retail chains, mass merchants, dealer and distributor networks. The airgun product category

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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. We made loans to, and purchased a controlling interest in, Velocity Outdoor on June 2, 2017 for approximately $150.4 million. 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. We currently own 99.2% of the outstanding stock of Velocity Outdoor on a primary basis and 91.0% on a fully diluted basis.

Niche Industrial Businesses

Advanced Circuits

Compass AC Holdings, Inc. (“Advanced Circuits” or “ACI”), headquartered in Aurora, Colorado, is a provider of small-run, quick-turn and volume production rigid printed circuit boards, or “PCBs”, throughout the United States. PCBs are a vital component of virtually all electronic products. The small-run and quick-turn portions of the PCB industry are characterized by customers requiring high levels of responsiveness, technical support and timely delivery. We made loans to, and purchased a controlling interest in, Advanced Circuits, on May 16, 2006 for approximately $81.0 million. We currently own 69.4% of the outstanding stock of Advanced Circuits on a primary basis and 69.2% on a fully diluted basis.

Arnold

AMT Acquisition Corp. ("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 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. We made loans to, and purchased a controlling interest in, Arnold on March 5, 2012 for approximately $128.8 million. We currently own 96.7% of the outstanding stock of Arnold on a primary basis and 79.4% on a fully diluted basis.

Clean Earth

Clean Earth Holdings, Inc. ("Clean Earth"), headquartered in Hatboro, Pennsylvania, is a provider of environmental services for a variety of contaminated materials. Clean Earth provides a one-stop shop solution that analyzes, treats, documents and recycles waste streams generated in multiple end-markets such as utilities, infrastructure, chemicals, aerospace and defense, non-public/ private development, medical, industrial and dredging. We made loans to, and purchased a controlling interest in, Clean Earth on August 26, 2014 for approximately $251.4 million. We currently own 97.5% of the outstanding stock of Clean Earth on a primary basis and 79.8% on a fully diluted basis.

Foam Fabricators

Foam Fabricators Inc. ("Foam Fabricators"), headquartered in Scottsdale, Arizona, is a designer and manufacturer of custom molded protective foam solutions and OEM components made from expanded polystyrene (EPS) and other expanded polymers. Foam Fabricators provides products to a variety of end-markets, including appliances and electronics, pharmaceuticals, health and wellness, automotive, building products and others. Foam Fabricators’ molded foam solutions offer shock and vibration protection, surface protection, temperature control, resistance to water absorption and vapor transmission and other protective properties critical for shipping small, delicate items, heavy equipment or temperature-sensitive goods. Foam Fabricators operates 13 molding and fabricating facilities across North America, creating a geographic footprint of strategically located manufacturing plants to efficiently serve national customer accounts. We acquired Foam Fabricators on February 15, 2018 for a purchase price of approximately $253.4 million. We currently own 100.0% of the outstanding stock of Foam Fabricators on a primary basis and 91.5% on a fully diluted basis.

Sterno

The Sterno Group LLC ("Sterno"), headquartered in Corona, California, is the parent company of Sterno Products, LLC ("Sterno Products"), Sterno Home Inc. ("Sterno Home"), and Rimports, LLC. Sterno is a leading manufacturer and marketer of 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. We made loans to, and purchased all of the equity interests in, Sterno on October 10, 2014 for approximately $160.0 million. 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. ("Sterno Home"), which sells flameless candles and outdoor lighting products through the retail segment, and in February 2018, Sterno acquired Rimports, Inc. ("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. We currently own 100.0% of the outstanding stock of Sterno on a primary basis and 88.9% on a fully diluted basis.

Our businesses also represent our operating segments. See “Our Businesses” and “Note E – Operating Segment Data” to our Consolidated Financial Statements for further discussion of our businesses as our operating segments, including information related to geographies.

2018 Highlights and Recent Events

2018 Acquisitions

Acquisition of Foam Fabricators

On February 15, 2018, the Company, through our wholly owned subsidiary FFI Compass, Inc., acquired all of the issued and outstanding capital stock of Foam Fabricators, Inc., a Delaware corporation (“Foam Fabricators”), for a purchase price of approximately $253.4 million. Foam Fabricators is a leading designer and manufacturer of custom molded protective foam solutions and OEM components made from expanded polymers such as expanded polystyrene and expanded polypropylene. 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 products and others.

Acquisition of Rimports

On February 26, 2018, our Sterno subsidiary acquired all of the issued and outstanding capital stock of Rimports, Inc., a Utah corporation, pursuant to a Stock Purchase Agreement, dated January 23, 2018. Sterno purchased a 100% controlling interest in Rimports. 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. The purchase price, net of transaction costs, was approximately $154.4 million. 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. Sterno funded the acquisition through their intercompany credit facility with the Company.

Acquisition of ESMI

On May 23, 2018, Clean Earth acquired all of the outstanding capital stock of Environmental Soil Management, Inc.(“ESMI”), located in Fort Edward, New York and Loudon, New Hampshire. The acquisition provided Clean Earth the opportunity to geographically expand their soil and hazardous waste solutions in the New York and New England market. The purchase price was approximately $31.0 million.

Acquisition of Ravin Crossbows

On September 4, 2018, Velocity Outdoor (formerly "Crosman Corp.") acquired all of the outstanding membership interests in Ravin 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 as of December 31, 2018. Headquartered in Superior, Wisconsin, Ravin Crossbows is a leading designer, 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. The acquisition of Ravin positions Velocity Outdoor to more fully capitalize on the sizeable crossbow market, further diversify its customer base and take advantage of the product and market expertise inside of Ravin.

Senior Notes and 2018 Credit Facility

On April 18, 2018, we consummated the issuance and sale of $400 million aggregate principal amount of our 8.000% Senior Notes due 2026 (the “Notes” or "Senior Notes") offered pursuant to a private offering. We used the net proceeds from the sale of the Notes to repay debt under our existing credit facilities in connection with a concurrent refinancing of our 2014 Credit Facility. 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, beginning on November 1, 2018. The Notes are general senior unsecured obligations and are not guaranteed by our subsidiaries.

Concurrent with the issuance of the Notes, we 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 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, and (ii) a $500 million term loan (the “2018 Term Loan”). The 2018 Term Loan was issued at an original issuance discount of 99.75%. We used the proceeds from the 2018 Credit Facility and the proceeds from the Notes offering to pay all amounts outstanding under our existing credit agreement and to pay the fees, original issue discount and expenses incurred in connection with the 2018 Credit Facility and Notes.

Trust Preferred Share Issuance

On March 13, 2018, the Trust issued 4,000,000 7.875% Series B Preferred Shares (the "Series B Preferred Shares") 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. Distributions on the Series B Preferred Shares are cumulative.

2018 Distributions

Common shares - For the 2018 fiscal year we declared distributions to our common shareholders totaling $1.44 per share.

Preferred shares - For the 2018 fiscal year we declared distributions to our preferred shareholders totaling $1.8125 per share on our Series A Preferred Shares and $1.724375 per share on our Series B Preferred Shares.

Subsequent Events

Manitoba Harvest

On February 19, 2019, we entered into a definitive agreement (the "Agreement") with Tilray, Inc. ("Tilray") and a wholly-owned subsidiary of Tilray, 1197879 B.C. Ltd. (“Tilray Subco”), to sell to Tilray, Inc., through Tilray Subco, all of the issued and outstanding securities of Manitoba Harvest for total consideration of up to C$419 million. Subject to certain customary adjustments, the shareholders of Manitoba Harvest, including the Company, may 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 (“Common Stock”) to the Common Holders on the closing date of the sale (the “Closing Date Consideration”), (ii) C$50 million in cash and C$42.5 million in Common Stock to the Common Holders on the date that is six months after the closing date of the Arrangement (the “Deferred Consideration”) and (iii) C$49 million in Common Stock to the Common Holders, which amount may be reduced, potentially to zero, if Manitoba Harvest fails to attain 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 will be reduced by the amount of the net indebtedness of Manitoba Harvest on the closing date and transaction expenses expected to be approximately $5 million. The Common Stock consideration is expected to be issued in reliance on the exemption from the registration requirements of the U.S. Securities Act and pursuant to exemptions from applicable securities laws of any state of the United States, such that any shares of Common Stock received by the Common Holders will be freely tradeable. The sale of Manitoba Harvest will occur pursuant to a plan of arrangement under the Business Operations Act (British Columbia). The completion of the plan of arrangement is subject to approval by the British Columbia Supreme Court. The sale is expected to close as soon as practicable following receipt of court approval.

Tax Reporting

Information returns will be filed by the Trust and the Company with the Internal Revenue Service ("IRS"), as required, with respect to income, gain, loss, deduction and other items derived from the Company's activities. The Company has and will file a partnership return with the IRS and intends to issue a Schedule K-1 to the trustee. The trustee intends to provide information to each holder of shares using a monthly convention as the calculation period. For 2018 and future years, the Trust will continue to file a Form 1065 and issue Schedule K-1 to shareholders. For 2018, we delivered the Schedule K-1 to shareholders within the same time frame as we delivered the schedule to shareholders for the 2017 and 2016 taxable years. The relevant and necessary information for tax purposes is readily available electronically through our website. Each holder will be deemed to have consented to provide relevant information, and if the shares are held through a broker or other nominee, to allow such broker or other nominee to provide such information as is reasonably requested by us for purposes of complying with our tax reporting obligations.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file reports with the Securities and Exchange Commission (the "SEC" or the "Commission"), including Forms S-1 and S-3 under the Securities Act of 1933, as amended (the "Securities Act"), and Forms 10-K, 10-Q, and 8-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which include exhibits, schedules and amendments to those reports, as well as other filings required by the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. In addition, copies of such reports are available free of charge through our website at http://www.compassdiversifiedholdings.com as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC.

Organizational Structure [1]

1) The percentage holdings shown in respect to the trust reflect the ownership of the Trust common shares as of December 31, 2018.

2) Our non-affiliated holders of common shares own approximately 84.0% of the Trust common shares and CGI Maygar Holdings, LLC owns approximately 13.4% of the Trust common shares and is our single largest holder. Path Spirit Limited is the ultimate controlling person of CGI Maygar LLC. Mr. Sabo, our Chief Executive Officer, is not a director, officer or member of CGI or any of its affiliates. The remaining 2.6% of Trust common shares are owned by our Directors and Officers.

3) 49.0% beneficially owned by certain persons who are employees and partners of our Manager. C. Sean Day, the Chairman of our Board of Directors, CGI and the former founding partners of the Manager, are non-managing members.

4) Mr. Sabo is a partner of this entity.

5) The Allocation Interests, which carry the right to receive a profit allocation, represent less than 0.1% equity interest in the Company.

Our Manager

Our Manager, CGM, has been engaged to manage the day-to-day operations and affairs of the Company and to execute our strategy, as discussed below. Collectively, our management team has extensive experience in acquiring and managing small and middle market businesses. We believe our Manager is unique in the marketplace in terms of the success and experience of its employees in acquiring and managing diverse businesses of the size and general nature of our businesses. We believe this experience will provide us with an advantage in executing our overall strategy. Our management team devotes a majority of its time to the affairs of the Company.

We have entered into a management services agreement, (the "Management Services Agreement" or "MSA") pursuant to which our Manager manages the day-to-day operations and affairs of the Company and oversees the management and operations of our businesses. We pay our Manager a quarterly management fee for the services it performs on our behalf. In addition, certain persons who are employees and partners of our Manager receive a profit allocation with respect to its Allocation Interests in us. All of the Allocation Interests in us are owned by Sostratus LLC. See Part III, Item 13 "Certain Relationships and Related Transactions" for further descriptions of the management fees and profit allocations.

The Company's Chief Executive Officer and Chief Financial Officer are employees of our Manager and have been seconded to us. Neither the Trust nor the Company has any other employees. Although our Chief Executive Officer and Chief Financial Officer are employees of our Manager, they report directly to the Company's board of directors. The management fee paid to our Manager covers all expenses related to the services performed by our Manager, including the compensation of our Chief Executive Officer and other personnel providing services to us. The Company reimburses our Manager for the compensation and related costs and expenses of our Chief Financial Officer and his staff, who dedicate substantially all of their time to the affairs of the Company.

See Part III, Item 13, "Certain Relationships and Related Party Transactions and Director Independence."

Market Opportunity

We acquire and actively manage small and middle market businesses. We characterize small to middle market businesses as those that generate annual cash flows of up to $60 million. We believe that the merger and acquisition market for small to middle market businesses is highly fragmented and provides opportunities to purchase businesses at attractive prices. We believe that the following factors contribute to lower acquisition multiples for small and middle market businesses:

- there are fewer potential acquirers for these businesses;
- third-party financing generally is less available for these acquisitions;
- sellers of these businesses frequently consider non-economic factors, such as continuing board membership or the effect of the sale on their employees; and
- these businesses are less frequently sold pursuant to an auction process.

Frequently, opportunities exist to augment existing management at such businesses and improve the performance of these businesses upon their acquisition. In the past, our management team has acquired businesses that were owned by entrepreneurs or large corporate parents. In these cases, our management team has frequently found that there have been opportunities to further build upon the management teams of acquired businesses beyond those that existed at the time of acquisition. In addition, our management team has frequently found that financial reporting and management information systems of acquired businesses may be improved, both of which can lead to improvements in earnings and cash flow. Finally, because these businesses tend to be too small to have their own corporate development efforts, opportunities frequently exist to assist these businesses as they pursue organic or external growth strategies that were often not pursued by their previous owners.

Our Strategy

We have two primary strategies that we use in order to provide distributions to our shareholders and increase shareholder value. First, we focus on growing the earnings and cash flow from our acquired businesses. We believe that the scale and scope of our businesses give us a diverse base of cash flow upon which to further build. Second, we identify, perform due diligence on, negotiate and consummate additional platform acquisitions of small to middle market businesses in attractive industry sectors in accordance with acquisition criteria established by the board of directors.

Management Strategy

Our management strategy involves the proactive financial and operational management of the businesses we own in order to increase cash flow, pay distributions to our shareholders and increase shareholder value. Our Manager oversees and supports the management teams of each of our businesses by, among other things:

- recruiting and retaining talented managers to operate our businesses using structured incentive compensation programs, including non-controlling equity ownership, tailored to each business;

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- regularly monitoring financial and operational performance, instilling consistent financial discipline, and supporting management in the development and implementation of information systems to effectively achieve these goals;
- assisting management in their analysis and pursuit of prudent organic growth strategies;
- identifying and working with management to execute attractive external growth and acquisition opportunities;
- assisting management in controlling and right-sizing overhead costs; and
- forming strong subsidiary level boards of directors to supplement management in their development and implementation of strategic goals and objectives.

Specifically, while our businesses have different growth opportunities and potential rates of growth, we expect our Manager to 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;
- investing in product research and development for new products, processes or services for customers;
- improving and expanding existing sales and marketing programs;
- pursuing reductions in operating costs through improved operational efficiency or outsourcing of certain processes and products; and
- consolidating or improving management of certain overhead functions.

Our businesses typically acquire and integrate complementary businesses. We believe that complementary add-on acquisitions improve our overall financial and operational performance by allowing us to:

- leverage manufacturing and distribution operations;
- leverage branding and marketing programs, as well as customer relationships;
- add experienced management or management expertise;
- increase market share and penetrate new markets; and
- realize cost synergies by allocating the corporate overhead expenses of our businesses across a larger number of businesses and by implementing and coordinating improved management practices.

We incur third party debt financing almost entirely at the Company level, which we use, in combination with our equity capital, to provide debt financing to each of our businesses and to acquire additional businesses. We believe this financing structure is beneficial to the financial and operational activities of each of our businesses by aligning our interests as both equity holders of, and lenders to, our businesses, in a manner that we believe is more efficient than each of our businesses borrowing from third-party lenders.

Acquisition Strategy

Our acquisition strategy involves the acquisition of businesses that we expect to produce stable and growing earnings and cash flow. In this respect, we expect to make acquisitions in industries other than those in which our businesses currently operate if we believe an acquisition presents an attractive opportunity. We believe that attractive opportunities will continue to present themselves, as private sector owners seek to monetize their interests in long-standing and privately-held businesses and large corporate parents seek to dispose of their “non-core” operations.

Our ideal acquisition candidate has the following characteristics:

- is an established North American based company;
- maintains a significant market share in defensible industry niche (i.e., has a “reason to exist”);
- has a solid and proven management team with meaningful incentives;
- has low technological and/or product obsolescence risk; and
- maintains a diversified customer and supplier base.

We benefit from our Manager’s ability to identify potential diverse acquisition opportunities in a variety of industries. In addition, we rely upon our management team’s experience and expertise in researching and valuing prospective target businesses, as well as negotiating the ultimate acquisition of such target businesses. In particular, because there may be a lack of information available about these target businesses, which may make it more difficult to understand or appropriately value such target businesses, on our behalf, our Manager:

- engages in a substantial level of internal and third-party due diligence;
- critically evaluates the target management team;
- identifies and assesses any financial and operational strengths and weaknesses of the target business;
- analyzes comparable businesses to assess financial and operational performances relative to industry competitors;
- actively researches and evaluates information on the relevant industry; and
- thoroughly negotiates appropriate terms and conditions of any acquisition.

The process of acquiring new businesses is both time-consuming and complex. Our management team historically has taken from two to twenty-four months to perform due diligence, negotiate and close acquisitions. Although our management team is always at various stages of evaluating several transactions at any given time, there may be periods of time during which our management team does not recommend any new acquisitions to us. Even if an acquisition is recommended by our management team, our board of directors may not approve it.

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 company level largely through our existing credit facility, to close acquisitions. We believe, and it has been our experience, that having the ability to finance our acquisitions with capital resources raised by us, rather than negotiating separate third party financing, provides us with an advantage in successfully acquiring attractive businesses by minimizing delay and closing conditions that are often related to acquisition-specific financings. In addition, our strategy of providing this intercompany debt financing within the capital structure of the businesses we acquire and manage allows us the ability to distribute cash to the parent company through monthly interest payments and amortization of principle on these intercompany loans.

Upon acquisition of a new business, we rely on our Manager’s experience and expertise to work efficiently and effectively with the management of the new business to jointly develop and execute a successful business plan.

We believe our financing structure, in which both equity and debt capital are raised at the Company level, allows us to acquire businesses without transaction specific financing and is conducive to our ability to consummate transactions that may be attractive in both the short and long-term.

In addition to acquiring businesses, we sell those businesses that we own from time to time when attractive opportunities arise that outweigh the future growth and value that we believe we will be able to bring such businesses consistent with our long-term investment strategy. As such, our decision to sell a business is based on our belief that doing so will increase shareholder value to a greater extent than through our continued ownership of that business. Upon the sale of a business, we may use the proceeds to retire debt or retain proceeds for acquisitions or general corporate purposes. We do not expect to make special distributions at the time of a sale of one of our businesses; instead, we expect to pay shareholder distributions over time solely through the earnings and cash flows of our businesses.

Since our inception in May 2006, we have recorded net gains on sales of our businesses of approximately $772 million. We sold Crosman Acquisition Company (“Crosman”) in January 2007, Aeroglide Company (“Aeroglide”) and Silvue Technologies Group, Inc. (“Silvue”) in June 2008, Staffmark Holdings Inc. (“Staffmark”) in October 2011, HALO Branded Solutions (“HALO”) in May 2012, CamelBak Products, LLC ("CamelBak") in August 2015, American Furniture Manufacturing, Inc. ("American Furniture") in October 2015, and Tridien Medical Inc. ("Tridien") in September 2016. In addition, we sold our Fox Factory Holding Corp. ("FOX") subsidiary through an initial public offering and secondary issuances from August 2013 through March 2017. We sold our Manitoba Harvest Business in February 2019 and anticipate recording a gain on sale during the first quarter of 2019.

Investment in FOX

We made loans to and purchased a controlling interest in FOX on January 4, 2008, for approximately $80.4 million. In August 2013, FOX completed an initial public offering of its common stock. As a result of the initial public offering, our ownership interest in FOX was reduced to approximately 53.9%. No gain was reflected as a result of the sale of our FOX shares in the initial public offering because our majority classification of FOX did not change. FOX used a portion of their net proceeds received from the sale of their shares as well as proceeds from a new external FOX credit facility to repay $61.5 million in outstanding indebtedness to us under their existing credit facility with us. In July 2014, through a secondary offering, our ownership in FOX was lowered from approximately 53% to approximately 41%, and as a result we deconsolidated FOX as of July 10, 2014. In March and August 2016, through two more secondary offerings and a share repurchase by FOX, our ownership in the outstanding common stock of FOX was further lowered to approximately 23% as of September 30, 2016. In November 2016, through another secondary offering, our ownership in the outstanding common stock of FOX was further lowered to approximately 14%. On March 13, 2017, FOX closed on a secondary public offering of 5,108,718 shares of FOX common stock held by CODI, which represented CODI's remaining investment in FOX. CODI received $136.1 million in net proceeds as a result of the sale. We recognized total net proceeds from the sales of our FOX shares of approximately $465.1 million, and a total gain of $428.7 million.

Strategic Advantages

Based on the experience of our management team and its ability to identify and negotiate acquisitions, we believe we are well-positioned to acquire additional businesses. Our management team has strong relationships with business brokers, investment and commercial bankers, accountants, attorneys and other potential sources of acquisition opportunities. In addition, our management team also has a successful track record of acquiring and managing small to middle market businesses in various industries. In negotiating these acquisitions, we believe our management team has been able to successfully navigate complex situations surrounding acquisitions, including corporate spin-offs, transitions of family-owned businesses, management buy-outs and reorganizations.

Our management team has a large network that we estimate to be approximately 2,000 deal intermediaries who we expect to expose us to potential acquisitions. Through this network, as well as our management team’s proprietary transaction sourcing efforts, we have a substantial pipeline of potential acquisition targets. Our management team also has a well-established network of contacts, including professional managers, attorneys, accountants and other third-party consultants and advisors, who may be available to assist us in the performance of due diligence and the negotiation of acquisitions, as well as the management and operation of our acquired businesses.

Finally, because we intend to fund acquisitions through the utilization of our 2014 Revolving Credit Facility, we expect to minimize the delays and closing conditions typically associated with transaction specific financing, as is typically the case in such acquisitions. We believe this advantage can be a powerful one, especially in a tight credit environment, and is highly unusual in the marketplace for acquisitions in which we operate.

Valuation and Due Diligence

When evaluating businesses or assets for acquisition, our management team performs a rigorous due diligence and financial evaluation process. In doing so, we evaluate the operations of the target business as well as the outlook for the industry in which the target business operates. While valuation of a business is, by definition, a subjective process, we define valuations under a variety of analyses, including:

- discounted cash flow analyses;
- evaluation of trading values of comparable companies;
- expected value matrices; and
- examination of comparable recent transactions.

One outcome of this process is a projection of the expected cash flows from the target business. A further outcome is an understanding of the types and levels of risk associated with those projections. While future performance and projections are always uncertain, we believe that with detailed due diligence, future cash flows will be better estimated and the prospects for operating the business in the future better evaluated. To assist us in identifying material risks and validating key assumptions in our financial and operational analysis, in addition to our own analysis, we engage third-party experts to review key risk areas, including legal, tax, regulatory, accounting, insurance and environmental. We also engage technical, operational or industry consultants, as necessary.

A further critical component of the evaluation of potential target businesses is the assessment of the capability of the existing management team, including recent performance, expertise, experience, culture and incentives to perform. Where necessary, and consistent with our management strategy, we actively seek to augment, supplement or replace existing members of management who we believe are not likely to execute our business plan for the target business. Similarly, we analyze and evaluate the financial and operational information systems of target businesses and, where necessary, we enhance and improve those existing systems that are deemed to be inadequate or insufficient to support our business plan for the target business.

Financing

Credit Facility

In April 2018, we entered into the 2018 Credit Facility to amend and restate the 2014 Credit Facility, originally dated as of June 6, 2014. The 2018 Credit Facility provides for (i) revolving loans, swing line loans and letters of credit up

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to a maximum aggregate amount of $600 million (the “2018 Revolving Loan Commitment”), and (ii) a $500 million term loan.

At December 31, 2018, we had $496.3 million outstanding on the 2018 Term Loan and $228.0 million outstanding on our 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 and the termination date of the revolving loan commitment. The 2018 Credit Facility also permits us, prior to the applicable maturity date, to increase the revolving loan commitment and/or obtain additional term loans in an aggregate amount of up to $250 million subject to certain restrictions and conditions.

The 2018 Credit Facility provides for letters of credit under the 2018 Revolving Credit Facility in an aggregate face amount not to exceed $100 million outstanding at any time, as well as swing line loans of up to $25 million outstanding at one time. At no time may the (i) aggregate principal amount of all amounts outstanding under the Revolving Credit Facility, plus (ii) the aggregate amount of all outstanding letters of credit and swing line loans, exceed the borrowing availability under the 2014 Credit Facility. At December 31, 2018, we had outstanding letters of credit totaling approximately $0.3 million. The borrowing availability under the 2018 Revolving Credit Facility at December 31, 2018 was approximately $371.7 million.

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. (See "Note H - Debt" to the consolidated financial statements for more detail regarding our 2018 Credit Facility).

Senior Notes

On April 18, 2018, we consummated the issuance and sale of $400 million aggregate principal amount of our 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. We used the net proceeds from the sale of the Notes to repay debt under our 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 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, beginning on November 1, 2018. The Notes are general senior unsecured obligations of the Company and are not guaranteed by our subsidiaries.

We intend to finance future acquisitions through our 2018 Revolving Credit Facility, cash on hand and, if necessary, additional equity and debt financings. We believe, and it has been our experience, that having the ability to finance our acquisitions with the capital resources raised by us, rather than negotiating separate third party financing specifically related to the acquisition of individual businesses, provides us with an advantage in acquiring attractive businesses by minimizing delay and closing conditions that are often related to acquisition-specific financings. In this respect, we believe that in the future, we may need to pursue additional debt or equity financings, or offer equity in Holdings or target businesses to the sellers of such target businesses, in order to fund multiple future acquisitions.

Our Businesses

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 table represents the percentage of net revenue and operating income each of our businesses contributed to our consolidated results since the date of acquisition for the years ended December 31, 2018, 2017 and 2016, and the total assets of each of our businesses as a percentage of the consolidated total as of December 31, 2018 and 2017.

	Year ended December 31,			Year ended December 31,			Year ended December 31,	
	2018	2017	2016	2018	2017	2016	2018	2017
	Net Revenue			Operating Income [1]			Total Assets	
Branded Consumer:								
5.11	20.6 %	24.4 %	11.2 %	3.2 %	(10.5)%	(17.8)%	19.8 %	26.1 %
Ergobaby	5.4 %	8.1 %	10.6 %	9.4 %	36.1 %	30.0 %	7.2 %	9.8 %
Liberty Safe	4.9 %	7.2 %	10.6 %	4.8 %	13.9 %	23.2 %	3.0 %	4.0 %
Manitoba Harvest	4.0 %	4.4 %	6.1 %	(1.4)%	(13.7)%	0.6 %	5.5 %	7.8 %
Velocity Outdoor	7.8 %	6.2 %	n/a	4.0 %	1.9 %	n/a	12.3 %	10.9 %
	42.6 %	50.3 %	38.5 %	20.0 %	27.7 %	36.0 %	47.8 %	58.6 %
Niche Industrial:								
Advanced Circuits	5.5 %	6.9 %	8.8 %	21.5 %	34.7 %	39.8 %	3.4 %	4.4 %
Arnold Magnetics	7.0 %	8.3 %	11.1 %	6.1 %	(8.4)%	(22.6)%	4.6 %	6.0 %
Clean Earth	15.8 %	16.6 %	19.3 %	11.8 %	17.7 %	13.9 %	17.2 %	19.4 %
Foam Fabricators	6.7 %	n/a	n/a	9.0 %	n/a	n/a	10.6 %	n/a
Sterno	22.5 %	17.8 %	22.4 %	31.7 %	28.2 %	32.9 %	15.9 %	11.2 %
	57.4 %	49.7 %	61.5 %	80.0 %	72.3 %	64.0 %	51.8 %	41.0 %
Corporate	—	—	—	—	—	—	0.4 %	0.5 %
	100.0%	100.0%	100.0%	100.0 %	100.0 %	100.0 %	100.0%	100.0%

[1] Operating income (loss) reflected is as a percentage of the total contributed by the businesses and does not include expenses incurred at the corporate level.

Branded Consumer Businesses

5.11

Overview

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 committed to product innovation, and works directly with end users to create 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. 5.11 products are widely distributed in law enforcement dealers, uniform stores, military exchanges, outdoor retail stores, company owned retail stores and online.

History of 5.11

5.11 was formed in 2003 after spinning out of outdoor apparel company, Royal Robbins®. The roots of 5.11, however, trace back to 1975, when American rock climber Royal Robbins designed the 5.11® Pant; named after the difficulty level in the Yosemite Decimal System rating scale for rock climbing. With difficulty levels ranging at the time from 5.0 (easy) to 5.10 (difficult), 5.11 was then described: "After thorough inspection, you conclude this move is impossible; however, occasionally someone actually accomplishes it."

A product designed for people who were pushing the limits of what was possible, the 5.11® Pant was a success among climbers and outdoor enthusiasts. In 1992, the FBI Academy, in Quantico, Virginia adopted the original 5.11® Pant as its primary training pant, forging a decades-long relationship that supports 5.11's commitment to the public safety and the first responder communities.

In 2011, 5.11's corporate headquarters was relocated from Modesto, California to Irvine, California. In 2012, 5.11 acquired Beyond Clothing LLC, a technical survival systems outerwear company located in Seattle, Washington. We acquired a majority interest in 5.11 on August 31, 2016.

Industry

5.11 participates in the global professional and consumer soft goods market for tactical gear and apparel; the addressable global soft goods market is estimated by management to be approximately $79 billion.

The domestic professional public safety market for tactical soft goods is estimated by management to be a $1.7 billion market consisting of sales to active-duty military, law enforcement, private security, fire, corrections officers and EMS. The addressable domestic work wear and consumer wear markets are estimated by management to be $4.3 billion and $13.2 billion, respectively.

The international professional public safety market for tactical soft goods is estimated by management to be a $11.7 billion market. The addressable international work wear and consumer wear markets are estimated by management to be $11.4 billion and $36.3 billion, respectively.

Products and Services

5.11 offers a portfolio of unique head-to-toe tactical gear with patented functional features for both professional and consumer use. No individual product style accounts for more than 7% of total sales, and most product styles tend to have multi-year lifecycles. 5.11 focuses its product offering through six major categories: tactical apparel, bags and packs, footwear, special make ups/uniforms, accessories, and Beyond Clothing Systems (“Beyond”).

Tactical apparel represents 5.11’s largest product category. Within this category, 5.11 offers a broad assortment of men’s and women’s pants, shorts, shirts, outerwear and base layers. Apparel is offered in a variety of styles and fits intended to enhance comfort and mobility. 5.11 has historically designed and developed innovative “families” of products around proprietary fabrics that the company has created to meet the needs of its unique target market. These product “families” typically start with a pant and then expand into other products. Today, 5.11 offers five distinct pant lines, which anchor five different apparel families: the Defender Flex Pant, the Apex™ Pant, the 5.11 Stryke™ Pant, the Taclite® Pro Pant, and the 5.11® Tactical Pant.

5.11 bags and packs provide reliable, multifunctional storage options designed to excel in a wide range of operational and recreational settings. This category includes backpacks, cases, load-bearing equipment, range bags and duffels. In addition to bags/packs and apparel, 5.11 sells footwear, including boots, low-profile tactical shoes, socks and accessories, as well as special make ups or customized uniforms for public safety agencies. 5.11 also offers a wide selection of accessories including belts, hats, flashlights, gloves, knives, eyewear, watches, patches, slings and holsters.

Beyond, a wholly-owned subsidiary of 5.11, offers technical survival outerwear systems engineered specifically for missions in extreme temperatures. Products are marketed under the Beyond brand name and include base layers and briefs, pullovers, softshell jackets, wind pants, rain pants and jackets made of advanced fabrics. Virtually all Beyond products are manufactured in the United States to comply with the Berry Amendment.

5.11’s core product offerings and suggested average retail prices are listed below:

- Pants and Shorts (Men’s and Women’s) - $49.99 to $269.99
- Woven Tops (Men’s and Women’s) - $39.99 to $229.99
- Outerwear (Men’s and Women’s) - $69.99 to $119.99
- Footwear (Men’s and Women’s) - $99.99 to $149.99
- Bags and Packs - $59.99 to $249.99
- Accessories - $19.99 to $79.99

Competitive Strengths

Leading Brand Recognition and Market Share - 5.11 is a leader in the tactical apparel market. 5.11 enjoys strong brand awareness and affinity in the public safety market given its long history of creating high performance and innovative products for public safety operators. 5.11’s heritage of developing purpose-built clothing and gear for law enforcement, firefighters, EMS, and military special operations has imbued the 5.11 brand with unrivaled authenticity in the tactical apparel and gear markets.

Diverse Customer Base - 5.11 has direct relationships with over 12,500 governmental departments and agencies, and utilizes an established network of over 1,500 dealers in over 90 countries. 5.11 wins a significant amount of business in the public safety channel through the achievement of “specified” product in thousands of individual contracts with governmental departments and agencies, providing for a broad base of long-term relationships.

Product Breadth and “At-Once” Availability - Requirements of outfitting entire agencies or departments necessitates carrying numerous, often infrequently used, sizes and colors of a given product. These requirements, coupled with “at-once” product fulfillment demands and often poorly capitalized dealer customers carrying low levels of inventory, makes 5.11 the go-to provider of tactical gear and apparel. 5.11’s significant investment in inventory provides a competitive advantage versus its smaller less well capitalized competitors.

Business Strategies

Further Expand into Consumer Market - 5.11 is well-positioned to continue investing in retail locations throughout the United States. 5.11 currently has forty-five company-owned retail locations, and management believes that there are significant opportunities to increase this footprint. 5.11 also sells to many outdoor specialty retailers and management believes there are opportunities to expand sales through increased penetration and improved merchandising.

Continue Penetration of Domestic Professional Channel - 5.11 continues to benefit from the domestic professional public safety market, which provides a stable base of recurring growth. Going forward, 5.11 will continue to grow within the domestic professional public safety channel through (i) continued conversion of institutional contract opportunity pipeline; and (ii) market share gains from continued product innovation and improved merchandising.

International Market Expansion - The international market remains an under-penetrated opportunity for 5.11. 5.11 will continue international sales development through building country-specific sales and operations infrastructure, executing on both near and medium term large foreign government contract opportunities, and expanding consumer awareness of the 5.11 brand.

Customers and Distribution Channels

5.11 services a wide range of customers including first responders, the military, and outdoors enthusiasts in over 90 countries. The primary distribution channels can be segmented into two categories: professional and consumer. 5.11's working capital needs do not differ substantially from those of its competitors in the industry and generally reflect the need to carry significant amounts of inventory to meet the requirements of its customers.

The domestic professional channel is characterized by thousands of unique “specified” product contracts with individual public safety departments, serviced through a network of more than one-thousand local third party dealers. Public safety departments include federal, state, county, city and local law enforcement, firefighters, and EMS. Similar to the domestic professional channel, the international professional channel also consists of many unique “specified” product contracts with individual foreign governmental departments, serviced either directly by 5.11 or through a network of international dealers. Large contracts with government agencies are referred to as Direct-to-Agency (“DTA”). A typical DTA sales process is driven primarily by lengthy governmental approval processes and can take upwards of 18 to 36 months.

Within the consumer segment, the consumer wholesale channel is comprised of (i) outdoor specialty retailers, (ii) military exchanges, and (iii) online. The consumer direct channel is comprised of (i) e-commerce sales directly through the 5.11 website, www.511tactical.com, and (ii) company-owned retail stores. At the end of 2018, 5.11 operated forty-five company-owned retail locations in twenty-two states.

For the year ended December 31, 2018, professional channel sales accounted for approximately 64% of total sales; approximately 1% of total sales were in the form of DTA sales. The consumer channel accounted for approximately 35% of total sales.

5.11’s top 10 customers comprised approximately 21%, 26% and 27% of total sales in the years ended December 31, 2018, 2017 and 2016, respectively.

Sales and Marketing

5.11’s sales organization consists of a mix of direct employees, independent contractors and sales agencies. The domestic salesforce develops direct relationships with thousands of individual public safety departments around the U.S. and participates in thousands of requests for proposal (RFP) processes annually. The salesforce works directly with over 900 local dealers to service local public safety departments once a 5.11 product receives “spec” as part of the RFP process.

The international salesforce covers three primary regions: Asia Pacific, Europe, Middle East and Africa ("EMEA") and Latin America. While the company does fulfill some orders directly to international customers through its 5.11 website, most sales are serviced through third party distributors and dealers in foreign jurisdictions.

5.11 has implemented a multi-pronged marketing plan including investments in (i) professional and consumer product catalogues; (ii) print media; (iii) tradeshows; (iv) shop-in-shop retail concepts; and (v) digital and social media content.

5.11 had a backlog of $17.3 million and $26.4 million at December 31, 2018 and 2017, respectively.

Suppliers

5.11 operates an efficient, low-cost supply chain, sourcing most its products through contract manufacturers in the Asia Pacific region. Production from Vietnam accounted for approximately 35% of 5.11’s purchases for the year ended December 31, 2017 and represented 5.11’s largest sourcing region. No single core product is 100% sourced by any one vendor. Management believes that 5.11’s principal manufacturers have the additional capacity to accommodate future growth.

Production of Beyond products occurs primarily through domestic subcontract facilities in the U.S. and through the brand’s headquarters in Seattle, Washington.

To ensure vendor reliability and quality, 5.11 established a sourcing office in Hong Kong. The office employs approximately 50 individuals whose primary functions include vendor management, commercialization, product development, production planning, vendor compliance, quality assurance and compliance.

Intellectual Property

5.11 relies on brand name recognition and a combination of trademarks and patents in order to differentiate itself from the competition. 5.11 currently has 18 utility patents and 10 design patents issued, in addition to 17 utility and 3 design patents pending registration. 5.11 currently owns 319 registered trademarks including 3 trade dress registrations. The company has in-house general counsel that manages the registration and defense of 5.11 intellectual property.

Regulatory Environment

Management is not aware of any existing, pending, or contingent liabilities that could have a material adverse effect on 5.11’s business. 5.11 is proactive regarding regulatory issues and is in compliance with all relevant regulations. Management is not aware of any potential environmental issues.

Employees

As of December 31, 2018, 5.11 employed a total of 629 non-unionized, full-time employees, 47 independent contractors, and 132 temporary workers. None of 5.11’s employees are subject to collective bargaining agreements. Management believes that 5.11 has an excellent relationship with its employees.

Ergobaby

Overview

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, blankets and swaddlers, nursing pillows, and related products that fit into families’ daily lives seamlessly, comfortably and safely. Ergobaby is headquartered in Los Angeles, California.

History of Ergobaby

Ergobaby was founded in 2003 by Karin Frost, who designed her first baby carrier following the birth of her son. The baby carrier product line has since expanded into 3-position and 4-position carriers, with multiple style variations. In its second year of operations, Ergobaby sold 10,500 baby carriers and today sells over 1 million a year. In order to support the rapid growth, in 2007, Ergobaby made a strategic decision to establish an operating subsidiary (“EBEU”) in Hamburg, Germany. We purchased a majority interest in Ergobaby on September 16, 2010.

On May 12, 2016, Ergobaby acquired membership interests of New Baby Tula LLC (“Baby Tula”) for approximately $73.8 million, excluding a potential earn-out payment. Baby Tula designs, markets and distributes premium baby carriers and accessories and focuses its efforts on both the ergonomics and fashion of its products.

In 2013, Ergobaby expanded its portfolio into the sleep category. The launch of the Ergobaby Swaddler which focused on a unique method of swaddling newborns while retaining healthy hip and arm positioning, was the first significant category expansion outside of baby carriers for the Ergobaby brand. In 2016, Ergobaby expanded its offering in the sleep category with the launch of its Baby Sleeping Bag. Baby Tula is also in the sleep category with its blanket offering, focusing on limited edition fashion prints.

In 2014, Ergobaby launched the Ergobaby Four-Position 360 Baby Carrier which expanded on Ergobaby's leadership in the baby carrier category by offering an ergonomic, outward forward facing position for the baby and comfort for the parent. The Ergobaby 360 Carrier won the 2014 JPMA Innovation award in the baby carrier category. In 2016, Ergobaby launched the 3-Position Adapt Baby Carrier that is geared for newborns to toddlers (7lbs-45lbs) and offers some unique parent comfort features including lumbar support and crossable shoulder straps, as well as the benefit of being an all-in-one carrier with no need for an infant insert accessory (for babies 7-12lbs.). In 2017, Ergobaby launched the All Position, All-in-One Omni 360 Baby Carrier that is geared for newborns to toddlers (7lbs-45lbs) and includes all of Ergobaby's parent & baby comfort features from the 360 and Adapt Baby Carriers, as well as the same consumer benefit of no infant insert accessory needed.

In 2018, Ergobaby entered into the stroller category with 2 new models. The first product launched was a full-size option called the 180 Reversible Stroller. This was followed later in the year by a premium compact option, the Metro Compact City Stroller.

Industry

Ergobaby competes in the large and expanding infant and juvenile products industry. The industry exhibits little seasonality and is somewhat insulated from overall economic trends, as parents view spending on children as largely non-discretionary in nature. Consequently, parents spend consistently on their children, particularly on durable items, such as car seats, strollers, baby carriers, and related items that are viewed as necessities. Further, an emotional component is often a factor in parents' purchasing decisions, as parents' desire to purchase the best and safest products for their children. As a result, according to the USDA's most recent report on Expenditures on Children by Families 2013 (August 2014), parents on average, spend between $9,130 and $25,700 on their child on an annual basis for related housing, food, transportation, clothes, healthcare, daycare and other items, depending on age of the child and annual income. The amount spent by parents in the highest income group (before tax income greater than $106,540) was more than twice the amounts spent by parents in the lowest income group (before tax income of less than $61,530). On average, households spent between 14 - 25% of their before-tax income on a child. Similar patterns are seen in other counties around the world.

Demand drivers fueling the growing spending on infant and juvenile products include favorable demographic trends, such as (i) an increasing number of births worldwide; (ii) a high percentage of first time births; (iii) an increasing age of first time mothers and a large percentage of working mothers with increased disposable income; and (iv) an increasing percentage of single child households and two-family households.

In purchases of baby durables, parents often seek well-known and trusted brands that offer a sense of comfort regarding a product's reliability and safety. As a result, brand name, comfort and safety certifications can serve as a barrier to entry for competition in the market, as well as allow well-known brands such as Ergobaby and Baby Tula to compete in a growing premium segment.

Products and Services

Baby Carriers

Ergobaby has two main baby carrier product lines: baby carriers and related carrier accessories, sold under both the Ergobaby and Tula brands. Ergobaby's baby carrier designs supports a natural, ergonomic ("M" shaped) sitting position for babies, eliminating compression of the spine and hips that can be caused by unsupported suspension. The baby carrier also distributes the baby's weight evenly between parents' hips and shoulders, and alleviates physical stress for the parent. Both Ergobaby's 3-Position and 4-Position baby carriers have been recognized by the International Hip Dysplasia Institute as being "hip healthy". Additional accessories are provided to complement the baby carriers including the popular Infant Insert.

Within the Ergobaby Baby Carrier product line, Ergo sells 3-Position and 4-Position baby carriers in a variety of style and color variations and Baby Tula sells 3-Position, Standard, Toddler and Wrap Conversion fashion-oriented baby carriers. Baby Carrier sales were approximately $85.7 million, $96.0 million and $84.0 million in the years ended

December 31, 2018, 2017, and 2016, respectively, and represented approximately 89%, 88% and 81%, of total sales in 2018, 2017, and 2016, respectively.
Within the baby carrier accessories category, the Infant Insert is the largest sales component of the accessory category. Accessory sales were $6.7 million, $8.6 million, and $10.5 million, in 2018, 2017, and 2016, respectively, and represented approximately 7.0% in 2018, 8.4% in 2017 and 10% in 2016, of total sales.
Ergobaby’s core Baby Carrier product offerings with average retail prices are summarized below:
Ergo
• 4 styles of baby carriers - $115 - $180
• 3 styles of Infant Inserts - $25 - $38
Tula
• 3 styles of baby carriers - $149 - $900
• 1 style of Infant Inserts - $40
Competitive Strengths
Ergobaby innovation - Ergobaby Carriers are known for their unsurpassed comfort. Ergobaby’s superior design results in improved comfort for both parent and baby. Parents are comfortable because baby’s weight is evenly distributed between the hips and shoulders while baby sits ergonomically in a natural ("M" shaped) sitting position. The concept of baby carrying has increased in popularity in the U.S. as parents recognize the emotional and functional benefits of carrying their baby. Consumers continually cite the comfort, design, and convenient “hands free” mobility the Ergobaby carrier offers as key purchasing criteria. Ergobaby is also recognized as an industry leader in innovation. With the launch of the Ergo 4-Position 360 Carrier in 2014, the launch of the 3-Position ADAPT carrier in 2016, and the launch of the All Position Omni 360 carrier in 2017, Ergobaby continues to innovate in the baby carrier segment on a regular basis.
Baby Tula Community - Tula enjoys an active and enthusiastic community who are vocal advocates for the brand. The Tula community acts as both an avid source of feedback on new product launches, which influence future product and patterns, as well as brand influencers to the broader new parenting community.
Business Strategies
Increase Penetration of Current U.S. Distribution Channels - Ergobaby continues to benefit from steady expansion of the market for wearable baby carriers and related accessories in the U.S. and internationally. Going forward, Ergobaby will continue to leverage and expand the awareness of its outstanding brands (both Ergobaby and Baby Tula) in order to capture additional market share in the U.S., as parents increasingly recognize the enhanced mobility, convenience, and the ability to remain close to the child that all Ergobaby carriers enable. Ergobaby currently markets its products to consumers in the U.S. through brick-and-mortar retailers, national chain stores; online retailers; and directly through Ergobaby.com and Babytula.com websites.

International Market Expansion - Testimony to the global strength of its lifestyle brand, Ergobaby has historically derived approximately 60% of its sales from international markets. Like it has in the U.S., Ergobaby can continue to leverage the Ergo and Tula brand equity in the international markets it currently serves to aggressively drive future growth, as well as expand its international presence into new regions. The market for Ergobaby’s products abroad continues to grow rapidly, in part due to the growth in the number of births worldwide and the fact that in many parts of Europe and Asia, the concept of baby wearing is a culturally entrenched form of infant and child transport.

New Product Development - Management believes Ergobaby has an opportunity to leverage its unique, authentic lifestyle brands and expand its product line. Since its founding in 2003, Ergobaby has successfully introduced new carrier products to maintain innovation, uniqueness, and freshness within its baby carrier and travel system product lines and has become the baby carrier industry leader with the launch of the 4-Position 360 baby carrier. In addition to expanding into new product carriers like swaddling and nursing pillows, in 2018, Ergobaby entered the stroller category by introducing a new premium compact stroller (Metro Compact City Stroller) and a full-size stroller (180 Reversible Stroller).

Customers and Distribution Channels

Ergobaby primarily sells its products through brick-and-mortar retailers, national chain stores, online retailers and distributors. In Europe, Ergobaby products are sold through its German based subsidiary, which services brick-and-mortar retailers and online retailers in Germany and France; it's United Kingdom based subsidiary; and its Tula subsidiary in Poland; as well as a network of distributors located in Finland, Russia, Belgium, the Netherlands, Sweden, Norway, Spain, Denmark, Italy, Turkey and the Ukraine. Customers in Canada are predominately serviced by Ergobaby's Canadian subsidiary. Sales to customers outside of the U.S. and European markets are predominantly serviced through distributors granted rights, though not necessarily exclusive, to sell within a specific geographic region.

Sales and Marketing

Within the U.S., Ergobaby directly employs sales professionals and utilizes independent sales representatives assigned to differing U.S. territories managed by in-house sales professionals. Independent salespeople in the U.S. are paid on a commission basis based on customer type and sales territory. In Europe, Ergobaby directly employs its salespeople and salespeople are paid a base salary and a commission on their sales, which is standard in that territory.

Ergobaby has implemented a multi-faceted marketing plan which includes (i) online marketing efforts, including online advertisement, search engine optimization and social networking efforts; (ii) increasing tradeshow attendance at consumer and medical professional shows; and (iii) increasing promotional activities.

Ergobaby had approximately $11.9 million and $9.2 million in firm backlog orders at December 31, 2018 and 2017, respectively.

Competition

The infant and juvenile products market is fragmented, with a few larger manufacturers and marketers with portfolios of brands and a multitude of smaller, private companies with relatively targeted product offerings.

Within the infant and juvenile products market, Ergobaby's baby carriers primarily compete with companies that market wearable baby carriers. Within the wearable baby carrier market, several distinct segments exist, including (i) slings and wraps; (ii) soft-structured baby carriers; and (iii) hard frame baby carriers.

The primary global competitors in this segment are BabyBjorn, Chicco, Britax and Manduca, which also market products in the premium price range. Especially in the U.S., Ergobaby brands also compete with several smaller companies that have developed wearable carriers, such as Infantino, Boba, and Lillebaby. Within the soft-structured baby carrier segment, Ergobaby benefits from strong distribution, good word of mouth, and the functionality of the design.

Suppliers

During 2018, Ergobaby sourced its Ergo carrier and carrier accessory products from Vietnam and India, and manufactured its stroller systems and accessory products in China. Baby Tula products predominantly were produced from factories in India and Poland and were also produced in its own facility located in Poland. In 2012, Ergobaby began sourcing carriers and accessories from a manufacturing facility in Vietnam and in 2009, Ergobaby partnered with a manufacturer located in India. More than 50% of Ergobaby's carriers and accessories came from Vietnam in 2018. Baby Tula sourced its carrier, accessories and blanket products from Poland, Vietnam and India, with purchases from these locations accounted for approximately 11% of total Ergobaby purchases. Management believes its manufacturing partners have the additional capacity to accommodate Ergobaby's projected growth.

Intellectual Property

Ergobaby maintains and defends a U.S. and international patent portfolio on some of its various products, including its 3-position and 4-position carriers. Currently, it has 24 patents (including allowances) and 17 patents pending in the U.S. and other countries. Ergobaby also depends on brand name recognition and premium product offering to differentiate itself from competition.

Regulatory Environment

Management is not aware of any existing, pending, or contingent liabilities that could have a material adverse effect on Ergobaby's business. Ergobaby is proactive regarding regulatory issues and is in compliance with all relevant regulations. Ergobaby maintains adequate product liability insurance coverage and to date has not incurred any losses. Management is not aware of any potential environmental issues.

Employees

As of December 31, 2018, Ergobaby employed 171 persons in 6 locations. None of Ergobaby’s employees are subject to collective bargaining agreements. We believe that Ergobaby’s relationship with its employees is good.

Liberty Safe

Overview

Liberty Safe, headquartered in Payson, Utah and founded in 1988, is the premier designer, manufacturer, and marketer of home, gun and office safes in North America. From its over 300,000 square foot manufacturing facility, Liberty Safe produces a wide range of home, office 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 Safe brand, as well as a portfolio of licensed and private label brands, including Cabela’s, Case IH, 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” or “National sales”). Liberty Safe has the largest independent dealer network in the industry, with more than 50% of Liberty's sales in the last two years coming from the dealer network.

History of Liberty Safe

The Liberty Safe brand and its leading market share has been built over a 30-year history of superior product quality, engineering and design innovation, and leading customer service and sales support. Liberty Safe has a long history of continuous improvement and innovative approaches to sales and marketing, product development and manufacturing processes. Significant investments over the last five years have solidified Liberty Safe’s reputation for providing substantial value to retailers and enhanced its long-standing position as the leading producer of premium home, office and gun safes.

Liberty Safe commenced operations in 1988 and in 2001 opened its current state-of-the-art facility in Payson, Utah. The new facility allowed Liberty Safe to consolidate all of its manufacturing and distribution operations to a centralized location. As the only facility in the industry utilizing significant automation and a streamlined roll-form manufacturing process, it represented a significant step forward when compared to the production capabilities of its competitors. Incremental investments following the consolidation have solidified Liberty Safe’s position as the preeminent low-cost and most efficient domestic manufacturer.

During 2011, Liberty Safe constructed a new production line that allowed Liberty to build entry level safe products in-house. This production line produces home and gun safe models that were previously completely sourced through foreign manufacturers. This investment in production capacity makes Liberty Safe one of the largest manufacturer of home, office and gun safes in the world. This added investment in capacity in the U.S. allowed Liberty Safe to provide shorter lead times and more competitive pricing to its North American customer base.

We purchased a majority interest in Liberty Safe on March 31, 2010.

Industry

Liberty Safe competes in the broadly defined North American safe and vault industry which includes fire and document safes, media and data safes, depository safes, gun safes and cabinets, home safes and hotel safes. According to Technavio's 2016 global safes and vaults market report, the global safe market was estimated to be approximately $2.9 billion in 2015, and is projected to grow at a CAGR of 5.5% through 2020. Gun safes and vaults comprise approximately 16.5% of the global safe market and it is expected that percentage will remain consistent through 2020. Domestically, demand for safes depends on several key factors, including per capita disposable income since safes are largely considered a discretionary purchase in most households. The gun safe segment of the industry typically sees demand that closely correlates to the demand from guns and ammunition manufacturers. When gun sales increase, the potential market for gun safes typically also increases. Increased fears surrounding violence in the country along with political uncertainty concerning gun ownership laws play a part in changes in gun ownership and subsequently, demand for gun safes. The profitability of individual companies depends on efficient operations and effective marketing, with large companies able to take advantage of economies of scale in production and distribution, while smaller companies compete through specialty products.

The domestic safe industry continues to see increased competition from imports, particularly those sourced from China. Imported safes were expected to comprise approximately one-third of the domestic sales in 2018, with competition

from imports highest in the small safe product group, which are targeted at households. Imported safes compete on price, with foreign manufacturers passing along savings from operational efficiencies, lower cost labor and raw materials to the end consumer. The competition from imported safes may make it harder to pass increasing costs, including the cost of steel, to the end consumer.

Products and Services

Liberty Safe offers home, office and gun safes with retail prices ranging from $400 to $8,000. Liberty Safe produces 32 home and gun safe models with the most varied assortment of sizes, feature upgrades, accessories and styling options in the industry. Liberty Safe’s premium home and gun safe product line covers sizes from 12 cu. ft. to 50 cu. ft. with smaller sizes available for its personal home safe. Liberty Safe markets its products under Company-owned brands and a portfolio of licensed and private label brands, including Cabela’s, Case IH, Colt and John Deere. Liberty Safe also sells commercial safes, vault doors, handgun vaults, and a number of accessories and options. The overwhelming majority of revenue is derived from the sales of safes.

Competitive Strengths

#1 Premium Home and Gun Safe Brand with Strong Momentum in the Market - Liberty Safe achieved the status of #1 selling safe company in America in 1994 (per statistics provided by Sargent & Greenleaf, the primary lock supplier to the industry) and maintains this prominent position today. Liberty Safe continues to gain market share from the various smaller participants who lack the distribution and sales and marketing capabilities of Liberty Safe.

State-of-the-Art and Scalable Operations - Liberty's management has constructed a highly scalable operational platform and infrastructure that has positioned Liberty Safe for substantial sales growth and enhanced profitability in the coming years. Liberty Safe transitioned itself from a manufacturing oriented operating culture to a demand-based, sales-oriented organization. Its strategic transition required the implementation of a demand-based sales and operating platform, which included (i) new equipment to drive automation and capacity improvements; (ii) re-engineered product lines and production processes to drive efficiency through greater standardization in production; and (iii) new employee incentives tied to labor efficiency, which has improved worker performance as well as employee attitude. These initiatives are enhanced by an experienced senior executive team, a balanced sourcing and in-house manufacturing production strategy, advanced distribution capabilities and sophisticated IT systems. Liberty has combined its demand-based sales and operating initiatives with upgraded production equipment to drive multiple operational improvements. These initiatives combined with Liberty’s cumulative historical investments in operational capabilities have created a lasting competitive advantage over its smaller competitors, who utilize labor-intensive operations and lack the company’s lean manufacturing culture. For the past seventeen years, Liberty Safe has leased a manufacturing and distribution facility in Payson, Utah that management believes represents the most scalable domestic facility in the industry. Liberty Safe’s multi-faceted production capabilities allow for substantial flexibility and scalable capacity, thus assuring a level of supply chain execution far superior to any of its competitors. Historically, Liberty Safe maintained an optimal mix of in-house and Asian-sourced manufacturing in order to improve its ability to meet customer inventory needs. Beginning in 2012, Liberty Safe began manufacturing entry level safes that were previously completely sourced from an Asian manufacturer, on its new production line. In 2018, only 4% of safes (excluding handgun safes) sold by Liberty were sourced in Asia.

Reputation for High Quality Products - Liberty Safe offers only the highest quality products on a consistent basis, which over the years has gained it an enviable reputation and a key point of differentiation from its competitors. Liberty Safe distinguishes its products through tested security and fire protection features and industry leading design focused on functionality and aesthetics. The design of its safes meet rigorous internal benchmarks for security and fire protection, with most receiving certification from Underwriters Laboratory, Inc. (“UL”), the leading product safety standard certification, for its security capabilities. Additionally, Liberty Safe’s investment in accessories and feature options have made Liberty safes the most visually appealing and functional in the industry, while providing more customized solutions for retailers and consumers.

Trusted Supplier to National Retailer and Dealer Accounts - Liberty Safe’s comprehensive, high-quality product offering and sophisticated sales and marketing programs have made it a critical supplier to a diverse group of national accounts and dealers. Initially a key supplier primarily to the dealer channel, it has expanded its business with national accounts, such as Cabela’s and John Deere. Liberty Safe provides a superior value proposition as a supplier for its national retailers and dealers via its well-recognized brands, lifetime product warranty, tailored merchandising, category management solutions and superior supply chain execution. Further, Liberty Safe’s products generate more profitable floor-space, with both high absolute gross profit and retail margins over 30%. High retail profitability plus increased inventory turns has entrenched Liberty Safe as a key partner in customers’ success in the safe category. As a core element of building its relationships, Liberty Safe has invested significantly in making its retailers better salespeople through a proprietary suite of training tools, including in-store training, new product demonstrations, online education programs and sales strategy literature.

Business Strategies

Liberty Safe has experienced strong historical growth while executing on multiple new sales and operational initiatives, positioning it to continue to increase its scale and improve profitability. Liberty's growth strategy is rooted in the sales and marketing and operational initiatives that have spurred its expansion into new accounts and increased penetration of existing accounts. Liberty has significant opportunity in its existing channels to continue to build upon its already strong market share. In addition to growth within its current channels, Liberty's core competencies can be successfully applied to ventures in the broader security equipment market. Liberty has explored certain of these opportunities, but due to the prioritization of operational initiatives and expansion opportunities within existing channels, they have not been aggressively pursued. Potential near-to-medium term areas for expansion of Liberty's platform include:

- Expand Liberty's product line into the broader home and office safe market through current customers or new distribution strategies;
- Further develop international distribution by entering new countries and expanding current limited presence in Canada, Mexico and Europe;
- Enter the residential security market through a strategic partnership with a provider of residential security service solutions to provide a more complete physical and electronic security solution;
- Acquire businesses within the premium home and gun safe industry and/or leverage Liberty's platform into new products or channels; and
- Offer additional accessory products to existing distribution networks.

Research and Development

Liberty Safe is the engineering and design leader in its sector, due to a history of first-to-market features and standard-setting design improvements. Liberty's proactive solicitation of feedback and constant interaction with consumers and retail customers across diverse channels and geographies enables Liberty Safe to stay at the forefront of customer demands. Liberty's approach to product development increases the likelihood of market acceptance by creating products that are more relevant to consumers' demands. Research and development costs were $0.2 million in 2018, $0.5 million in 2017, and $0.3 million in 2016.

In addition to product enhancements, new products, such as the plate-door National Security Classic, and a new, 6-SKU line of handgun vaults were launched in 2015 from Liberty's commitment to R&D. In 2016, Liberty introduced a new 3-section "Extreme" interior design, new safe covers, new handgun vault designs, and several new safe sizes. In 2018, Liberty introduced a new flat pin design (patent pending) in all of its large safes. This new design provides a much higher level of security against pry-attacks.

Customers and Distribution Channels

Liberty Safe has fostered long-term relationships with leading national retailers (National or Non-Dealer) as well as numerous Dealers, enabling Liberty Safe to achieve considerable brand awareness and channel exposure. Through significant investment in its national accounts sales and marketing efforts, Liberty Safe has also become a leading supplier to National accounts. Expansion into National accounts is part of Liberty Safe's strategy to reach a broader customer base and more varied demographics. National account customers include sporting goods retailers, farm and fleet retailers, and home improvement retailers. As of December 31, 2018, 2017 and 2016, Liberty Safe had 20, 16 and 13 Non-Dealer account customers, respectively, that are estimated to have accounted for approximately 40%, 46% and 50% of net sales, respectively.

Dealer customers include local hunting and fishing stores, hardware stores and numerous other local, independent store models. As of December 31, 2018, 2017 and 2016, there were 405, 406 and 392 Dealers that accounted for 60%, 54% and 50% of net sales, respectively.

Liberty Safe's two largest customers accounted for approximately 29.5%, 32.6% and 36.5% of net sales in 2018, 2017 and 2016, respectively.

Seasonality

Liberty Safe typically experiences its lowest earnings in the second quarter due to lower demand for safes at the onset of summer.

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Sales and Marketing

Liberty Safe possesses robust sales and marketing capabilities in the safe industry. Liberty Safe utilizes separate sales teams for National accounts and Dealers, which enables it to provide more focused and effective strategies to manage and develop relationships within different channels. Liberty Safe has made significant recent investments in the development of a comprehensive sales and marketing program including merchandising, sales training and tools, promotions and supply chain management. Through these various initiatives, Liberty Safe offers highly adaptable programs to suit the varying needs of its retailers. This has enabled Liberty Safe to become a key supplier across diverse channels. Liberty Safe began advertising nationally on the Glenn Beck radio show in the second half of 2010. This advertising has been highly successful and Liberty has continued this advertising in each of the following years and intends on continuing this advertisement in the future.

Liberty Safe's comprehensive service offering makes it uniquely suited to service national retailers in a variety of channels. Liberty Safe has designed a Store-within-a-Store program and a more comprehensive Safe Category Management program to build relationships and increase its importance to retailers. Primarily utilized with sporting goods retailers, the Store-within-a-Store concept successfully integrates the effective sales strategies of its dealers for selling a high-price point, niche product into a larger store format. Centered on communicating the benefits of its products to customers, the program enables retailers to more effectively up-sell customers through a good-better-best merchandising platform, increasing margin and inventory turns for its retailers. Liberty's Safe Category Management program builds on the Store-within-a-Store concept to provide greater sales and marketing control and more complete inventory management solutions. This program facilitates Liberty Safe becoming the sole supplier to retailers, providing large incremental expansion and stronger relationships at accounts. No other market participant has the capabilities to provide a comprehensive suite of customer service solutions to national retailers, such as customized SKU programs, a Store-within-a-Store program and a Safe Category Management program.

Competition

Liberty Safe is the premier brand in the premium home and gun safe industry, with an estimated 34% market share in the category. Liberty is in a class by itself when it comes to manufacturing technology and efficiency and supply chain capabilities. Competitors are generally more heavily focused on either smaller, sourced safes or large, domestically produced safes. Competitive domestic manufacturers run "blacksmith" type factories that are small, inefficient and require a tremendous amount of manual labor that produces inconsistent product. In addition, many of Liberty's competitors are directly tied to a third-party brand, such as Browning or Winchester.

Liberty competes with other safe manufacturers based on price, breadth of product line, technology, product supply chain capabilities and marketing capabilities.

Channel diversity in the premium home and gun safe industry is rare, with most companies having greater concentration in either the dealer channel or national accounts, but rarely having the supply chain capabilities or sales and marketing programs to service both channels effectively such as Liberty Safe does. Major competitors have limited sales and marketing departments and programs, making it difficult for them to expand sales and gain market share.

Suppliers

Liberty's primary raw materials are steel, sheetrock, wood, locks, handles and fabric, for which it receives multiple shipments per week. Materials, on average, account for approximately 60% of the total cost of a safe, with steel accounting for approximately 45% of material costs. Liberty purchases its materials from a combination of domestic and foreign suppliers. Historically, Liberty Safe has been able to pass on raw material price increases to its customers. Liberty purchased approximately 18 million pounds of steel in 2018 primarily from domestic suppliers, using contracts that lock in prices two fiscal quarters in advance. Liberty Safe purchases coiled and flat steel in gauges from four to fourteen. Liberty Safe specifies rigorous requirements related to surface and edge finish and grain direction. All steel products are checked to ASTM specification and dimensional tolerances before entering the production process.

Liberty Safe had approximately $6.0 million and $6.2 million in firm backlog orders at December 31, 2018 and 2017, respectively.

Intellectual Property

Liberty Safe relies upon a combination of patents and trademarks in order to secure and protect its intellectual property rights. Liberty Safe currently owns 32 trademarks and 4 patents on proprietary technologies for safe products.

Regulatory Environment
Liberty Safe's management believes that Liberty Safe is in compliance with applicable environmental and occupational health and safety laws and regulations. Liberty Safe has recently moved to a powder paint application in order to reduce hazardous VOC emissions.
Employees
As of December 31, 2018, Liberty Safe had 344 full-time employees and 6 temporary employees. Liberty’s labor force is non-union. Management believes that Liberty Safe has an excellent relationship with its employees.
Manitoba Harvest
Overview
Headquartered in Winnipeg, Manitoba, Manitoba Harvest is a pioneer and leader in branded, hemp-based foods. Manitoba Harvest’s products, which Management believes are among the fastest growing in the natural foods industry, are currently carried in approximately 16,500 retail stores across the United States and Canada. Manitoba Harvest’s hemp-based, all-natural product lineup includes hemp hearts, protein powder, hemp oil, hemp milk substitute, and snacks. As the world’s largest vertically-integrated hemp food manufacturer, Manitoba Harvest is involved in every aspect of the hemp production process, from “seed-to-shelf.” All of Manitoba Harvest’s products are an excellent source of plant-based protein and essential fatty acids, including omega-3, gamma-linolenic acid and stearidonic acid. The hemp-based food market is rapidly growing as consumers become aware of the unique combination of great taste and nutritional benefits of hemp-based foods.
We purchased a majority interest in Manitoba Harvest on July 10, 2015, and we sold Manitoba Harvest subsequent to year-end in the first quarter of 2019.

History of Manitoba Harvest
Founded in 1998 following the legalization of industrial hemp production in Canada, Manitoba Harvest has been the industry leader in the manufacture of the highest quality hemp food products while educating people on the benefits of hemp nutrition. Manitoba Harvest initially sold the company’s raw hemp seed and oil products in natural food stores with distribution and marketing efforts focused on promotion of consumer acceptance of hemp seeds as a food product. In 2001, Manitoba Harvest began selling their products at Whole Foods and Loblaws, one of Canada’s largest supermarket chains, which allowed for expansion beyond natural food stores. As hemp food products continued to gain mainstream acceptance, Manitoba Harvest launched additional hemp-based products, including a hemp protein powder line, a hemp smoothie line and hemp-based snacks. Manitoba Harvest’s facility in Winnipeg achieved organic certification in 2004 and non-GMO verification in 2009. Manitoba Harvest has the highest level of global certification in food safety and quality and is the first and only hemp-based food company to achieve British Retail Consortium Global Food Safety Initiative (“BRC”) AA+ certification. Leveraging its proven innovation capabilities and position as an industry leader, Manitoba Harvest is currently introducing new product formats with broad appeal, and expanding its presence in retail channels, particularly grocery channels and e-commerce, to capitalize on strong demand from existing customers and to broaden its appeal to reach mainstream consumers.
On December 15, 2015, Manitoba Harvest acquired all the outstanding stock of Hemp Oil Canada Inc. (“HOCI”). HOCI is a wholesale supplier and a private label packager of hemp food products and ingredients. With the acquisition of HOCI, Manitoba Harvest has added a leading manufacturer and supplier of hemp food products and ingredients for a global customer base.

Industry
Hemp is the distinct oilseed and fiber varieties of the plant species Cannabis sativa L., a tall fibrous plant that has been cultivated worldwide for more than 10,000 years. The hemp crop was introduced to North American in the early 1600s, and it played an integral part in North America’s early history as it was used as a material for various products including riggings and sails on naval ships, paper and fuel oil. Hemp is versatile, with diverse uses from food products to clothing, building materials, fuel and various other applications. As a food product, hemp is packed with essential nutrients such as protein, healthy fats, fiber, magnesium and all 10 essential amino acids.
As a crop, hemp is a low impact and environmentally sustainable resource that can be grown without pesticides or agricultural chemicals. Hemp is beneficial to the agricultural supply chain, aiding in weed suppression and soil

building, making it a favored rotation crop. Hemp comes from the Cannabis sativa L. subspecies sativa, which is a different subspecies from that grown to produce marijuana, subspecies indica. Hemp contains 0.001% Tetrahydrocannabinol ("THC"). Although it is completely legal to further process and consume hemp-based food products in the U.S., until recently there have been legal restrictions against cultivation of hemp or the processing of live seeds. As a result, U.S. marketers of hemp-based products were required to import essentially all of the hemp seed, oil and fiber that they need. However, the regulatory environment in the U.S. is slowly changing. The U.S. Agriculture Act of 2014 defined industrial hemp as distinct from marijuana and authorized institutions of higher learning and state agriculture departments to grow industrial hemp for research and agricultural pilot programs, leading to certain states that have legalized hemp cultivation and have begun to authorize farmers to plant and grow hemp for experimental purposes. Further, the U.S. Farm Bill passed December 2018 fully legalized the cultivation and sale of industrial hemp at the federal level, effective January 1, 2019.

In Canada, the commercial cultivation of hemp was authorized in 1998 with the implementation of the Canadian Industrial Hemp Regulations, which governs the cultivation, processing, transportation, sale, import and export of industrial hemp. Since its legalization, hemp has garnered significant interest among Canadian farmers and the Canadian government has supported the industry through market development funding and a favorable regulatory environment. The Canadian agricultural industry views hemp as a valuable alternative crop that complements prairie crop production rotations and offers significant economic opportunity due to its numerous end uses.

Hemp-based foods are considered a superfood that are rich in healthy fats and other important minerals; furthermore, hemp seeds are an excellent dietary source of easily digestible plant-based protein. The unique nutritional profile of hemp foods appeals to a broad base of modern diet trends, ranging from paleo to vegetarian diets. Manitoba Harvest broadly competes in the Nuts & Seeds and Protein Powder categories, which Nielsen estimates to be $4.4 billion and $540 million at retail, respectively. The QYR Food and Beverages Research Center estimated hemp-based food and personal care revenue for the United States and Canada at just under USD $372 million in 2017.

Products

Manitoba Harvest is a global leader in branded, hemp-based foods. The company's products are the fastest growing products in the hemp food market and among the fastest growing in the entire natural foods industry. The company's hemp-exclusive, consumer-facing 100% all-natural product lineup includes Hemp Hearts, protein powder, and snacks. Manitoba Harvest processes natural and organic hemp seed which are sold as hulled seed, hemp oil, hemp protein, toasted hemp seed and coarse hemp powder.

Hemp Hearts - Hemp Hearts are raw shelled hemp seeds and have a slightly nutty taste, similar to that of a sunflower seed or a pine nut. Hemp Hearts contain 10 grams of plant-based protein and 12 grams of omega essential fatty acids per 30 gram serving. Hemp Hearts can be used as a topping for yogurt, salads, cereal, as a component for smoothies and other meals, or eaten directly from the package. Manitoba Harvest offers Hemp Hearts in all-natural and organic varieties through a number of SKUs. Hemp Hearts are all-natural and non-GMO verified. Hemp Hearts represented approximately 72% of Manitoba Harvest's gross revenues in 2018.

Hemp Protein Powder - Manitoba Harvest offers a variety of plant-based proteins that serve a multitude of culinary and dietary needs including HempYeah! Plant Protein Blends in three flavors, HempYeah! Max Protein, Hemp Yeah! Balanced Protein + Fiber, and HempYeah! Max Fiber in three flavors. Manitoba Harvest protein powders are plant-based products that are great complements to fruit smoothies, added to yogurt, hot cereal, or incorporated into baking products. Manitoba Harvest offers hemp protein products in all-natural and organic varieties, and all protein powders are non-GMO verified. Hemp protein powders represent approximately 15% of Manitoba Harvest's gross revenues in 2018.

Hemp Oil, Hemp Bliss and Other Products - Manitoba Harvest's other products include Hemp Oil, in both liquid and soft-gel formats, and Hemp Bliss, a non-dairy beverage. Hemp oil is a cold-pressed oil with no preservatives or artificial colors and is commonly used as a low heat culinary oil or as an ingredient in dressings or sauces. Hemp snacks, Hemp oil and Hemp Bliss comprised approximately 13% of Manitoba Harvest's gross revenues in 2018.

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Competitive Strengths
Leading Brand Recognition & Market Share - Manitoba Harvest is an award-winning pioneer and global leader in branded, hemp-based foods. Consumer awareness of hemp-based foods and the Manitoba Harvest brand continues to grow rapidly. Manitoba Harvest has developed considerable brand equity with a growing, highly-loyal, and very passionate consumer following. Management believes that Manitoba Harvest holds more than 50% of the market share of hemp heart seed sales and hemp protein powder sales in North America.

Strong Core Consumer Base - Manitoba Harvest's core consumers are those who generally prefer all-natural products and focus on practicing a lifestyle of health and sustainability. Among its core consumer base, hemp-based foods have a high level of awareness and Manitoba Harvest possesses a high level of brand recognition among this consumer segment. Consumers tend to be extremely loyal after incorporating Manitoba Harvest's hemp foods into their lifestyle. Consumers develop a bond with the Manitoba Harvest brand and appreciate that Manitoba Harvest seeks to positively impact the community and the environment with its actions. Manitoba Harvest is committed to having a material positive impact on society and the environment. The company takes this commitment very seriously, and communicates this to consumers, in part, by maintaining certification as a registered "B-Corporation". Through its actions, Manitoba Harvest inspires consumers to "live the brand" and lead happier and healthier lives.

Vertically-Integrated Supply Chain with Long-Term Relationships with Suppliers - Manitoba Harvest enjoys strong relationships with hemp producers, some dating back to their inception in 1998. Manitoba Harvest has a rigorous qualification process for its suppliers which includes an ongoing supplier scorecard and chooses to purchase hemp seeds from only the highest quality growers. With limited exception, farmers working with Manitoba Harvest are exclusive to them. In North America, hemp is only grown commercially in Canada and Manitoba Harvest accounts for more than 60% of the hemp supply, minimizing risk and ensuring quality hemp seeds for their product. The majority of Canada's hemp supply outside of Manitoba Harvest's business goes into ingredient and wholesale markets, making Manitoba Harvest the only vertically-integrated, branded hemp-based food company in North America.

Business Strategies
Manitoba Harvest's management believes it is well positioned for continued topline growth. As consumer awareness of and demand for hemp-based foods increases, Manitoba Harvest will continue to leverage its market leadership and strong brand awareness to grow through existing customers, broadened distribution, new product launches, and expanded ingredients business.
Increasing consumer awareness - Manitoba Harvest was founded with the mission to educate consumers on the health and environmental benefits of hemp-based food products and is working to drive awareness with consumers on multiple fronts. Manitoba Harvest is driving consumer awareness through media outreach, a growing social media community, digital media and network of brand ambassadors. Manitoba Harvest is increasing its investment in digital media, coupons, in-store displays, and product demos at key retailers in the United States and Canada. Educating shoppers in the U.S., many of whom are unaware of the benefits of hemp foods, will continue to drive sales among shoppers and build relationships at accounts. Manitoba Harvest is also a co-sponsor of Hemp History Week, an annual event that features hundreds of product demos and promotional events at major retailers throughout the U.S., including Whole Foods Market.
Continued growth with existing customers - Manitoba Harvest expects to grow same store sales with existing customers by expanding the presence of their products on the shelf throughout stores through the introduction of new formats, improved retail product placement and increased investment in merchandising.
Expansion into new customers - Management believes it has significant opportunity to enter new grocery customers in the mainstream grocery channel, both in Canada and the United States. The grocery channels in both the United States and Canada have experienced significant sales growth in all-natural and organic product categories while sales in traditional product categories have been flat or decreased. Manitoba Harvest continues to invest in its sales capabilities to improve access and engagement with key retail accounts in order to capitalize on consumer demand for healthy eating.

Continued innovation and new product development - In 2018, the company introduced a new line of plant protein blends under the newly created HempYeah! Brand. In addition, all hemp protein powders were renovated under the HempYeah! Brand with clearer consumer positing and updated packaging. Management plans to continue to innovate on existing product lines through new formats and flavors as well as continued development of new product categories to broaden customer appeal and increase the number of hemp food usage occasions.

Expanded ingredient business - With the acquisition of HOCI in 2015, Manitoba Harvest added a leading manufacturer and supplier of hemp food products and ingredients. As hemp-based food usage continues to become more widely adopted, management believes the strategic acquisition of HOCI has positioned the company to capitalize on the growing opportunity to be the ingredient supplier of choice to other leading food manufacturers in complementary food product categories.

Research and Development

Manitoba Harvest competes in the natural products industry, which is characterized by research and development and which yields food product innovations that contribute to human wellness and sustainable development. The scope of research and development is focused on new product development, product enhancement, process design and improvement, packaging, and meeting the needs of the expanding international business. Additionally, management utilizes analytics to manage the evolution of its relationships with its customers, and conducts consumer research during early stages of new product development initiatives in order to identify key success factors. Manitoba Harvest spent approximately $0.6 million, $0.7 million and $0.3 million, respectively, on research and development in 2018, 2017, and 2016. In 2018, hemp seeds, oils and protein powders received GRAS (Generally Regarded As Safe) status from the FDA.

Customers and Distributions Channels

Manitoba Harvest sells its products through four primary retail channels: natural foods, club, conventional grocery, and e-commerce. After initially establishing the authenticity of its brand and products in the natural channel at retailers such as Whole Foods Markets and Sprouts, Manitoba Harvest expanded into the club and grocery channel, initially in Canada, and then in the United States and internationally. In addition, the company sells their hemp food products and ingredients to value-added manufacturers to be used in hemp cereals, hemp milk, nutrition and protein bars and powders, baked goods, and salad dressings.

Manitoba Harvest's three largest customers accounted for approximately 40% of total sales in 2018, 36% of total sales in 2017, and approximately 47% of total sales during 2016. In 2018, approximately 69% of Manitoba Harvest's gross sales were to customers in the United States and approximately 28% were to customers in Canada. The remaining 3% were primarily to customers in a broad range of international locations. In 2017, approximately 57% of Manitoba Harvest's gross sales were to customers in the United Sates and approximately 38% of gross sales were to customers within Canada. The remaining 5% were primarily to customers in a broad range of international locations.

Sales and Marketing

Manitoba Harvest grows sales within existing retail partners by educating and engaging potential consumers through in-store demos, consumer events and sampling.

In addition to partnering with national natural food channel brokers, Manitoba Harvest’s sales organization consists of sales professionals with direct sales coverage of over 1,000 retail locations. The sales force is led by the Senior Vice President of Sales and consists of sales managers, territory managers and brand ambassadors dedicated to specific regions in Canada and the United States. Manitoba Harvest’s sales force is focused on the natural, club and grocery channels, through direct key account coverage and winning sales through a focus on data for category and customer management. In addition to direct sales, the company uses a network of distributors to service many of its customers. Manitoba Harvest focuses the majority of sales spending in three key areas: demonstrations/sampling, fixed trade spending and promotions. Successful product demonstrations within the club and grocery channels have helped drive increased sales productivity. Manitoba Harvest utilizes fixed trade spending to secure end-cap positions, ad space and off-shelf displays at various retailers. Additionally, they strategically utilize promotions to position its products in prime display space at retailers.

Competition

The emerging hemp foods category has a limited number of participants that offer a minimal number of hemp-based products while focusing on a broader assortment of food items. While increasing, competition remains limited due to restricted raw hemp seed access in the United States. Manitoba Harvest’s strong supplier relationships, regulated access to hemp seeds and deep knowledge of the growing and harvesting of hemp afford the company with a unique competitive advantage.

Manitoba Harvest has the highest level of global certification in food safety and quality and is the first and only hemp-based food company to achieve British Retail Consortium (“BRC”) AA+ Global Food Safety Initiative certification.

Suppliers

Manitoba Harvest is strategically located near their supply of hemp in Canada. The commercial cultivation of hemp was authorized in Canada in 1998 with the implementation of the Canadian Industrial Hemp Regulations. This governs the cultivation, processing, transportation, sale, import and export of industrial hemp. Industrial hemp is viewed by the Canadian and agricultural industry as a valuable new alternative crop that complements crop production rotations and offers significant economic opportunity through numerous end uses. The prairie provinces of Manitoba, Saskatchewan and Alberta have emerged as a leading region for growing hemp due to the ideal agricultural characteristics: a long growing season, sufficient moisture levels, and supportive local governments that view hemp as a strategic crop. The adaptability of hemp makes it ideal for areas of the provinces that have limited cropping options and where high value crops such as edible beans and sunflowers are considered high risk.

Based on its proximity to many of its growers, Manitoba Harvest has developed long-standing relationships with hemp suppliers and currently maintains relationships that provide access to over 60% of the hemp acreage in Canada. Manitoba Harvest has a rigorous qualification process for its suppliers - maintaining an ongoing supplier scorecard and choosing to purchase hemp from high quality growers. With limited exception, farmers working with Manitoba Harvest are exclusive to them. Manitoba Harvest works with approximately 130 conventional and organic hemp growers in Western Canada and the province of Quebec, and 5 hemp seed cleaners. As early leaders of the hemp legalization movement, Manitoba Harvest’s founders have developed in-house expertise on the plant, which they share with their hemp grower partners to help them achieve optimal yield and quality harvests.

Manitoba Harvest processes 100% of its Hemp Hearts, hemp oil and protein powder at its dedicated hemp food products manufacturing facilities. Manitoba Harvest has leveraged nearly two decades of hemp food manufacturing expertise and has worked with research scientists to develop proprietary processing technology that is specific to hemp. Their two hemp manufacturing facilities in the province of Manitoba can produce up to 65 million pounds of hemp seed annually. The Winnipeg facility is 25,700 square feet and the St. Agathe facility is 37,000 square feet.

Intellectual Property

Manitoba Harvest relies on brand name recognition and premium natural and organic offerings in the hemp food market to differentiate itself from the competition. Manitoba Harvest holds several trademark registrations in multiple jurisdictions, primarily the United States and Canada.

Regulatory Environment

Management is not aware of any existing, pending or contingent liabilities that could have a material adverse effect on Manitoba Harvest’s business. Manitoba Harvest is proactive regarding regulatory issues and is in compliance with all relevant regulations. Management is not aware of any potential environmental issues.

Employees

As of December 31, 2018, Manitoba Harvest employed approximately 157 persons. None of Manitoba Harvest's employees are subject to collective bargaining agreements. Manitoba Harvest believes its relationship with its employees is good.

Velocity Outdoor

Overview

Velocity Outdoor, headquartered in Bloomfield, New York, is a leading designer, manufacturer, and marketer of airguns, archery products, laser aiming devices and related accessories. We acquired a majority interest in Velocity Outdoor for a net purchase price of $150.4 million in June 2017. 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. Airguns historically represent Velocity Outdoor's largest product category. 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, 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.

History of Velocity Outdoor

Velocity was founded in 1923 as Crosman Rifle Company and was one of the first manufacturers of recreational airguns in the United States. Velocity Outdoor acquired Visible Impact Target Company in 1991 and Benjamin Sheridan Corporation in 1992. Benjamin was, and continues to be, a dominant U.S. producer of high-end pneumatic and CO2 powered airguns while Sheridan was one of the world's foremost manufacturers of high quality paintball markers. In 2007, Velocity expanded its offerings outside the traditional airgun category with the debut of its new optics division, CenterPoint Precision Optics. In 2008, Velocity diversified further by adding Crosman Archery to its list of branded products and introduced two new hunting crossbows in addition to youth archery products. In 2016, Velocity debuted its CenterPoint line of crossbows and the Benjamin Pioneer Airbow, the first ever mass-produced air powered archery device and with the 2018 acquisition of Ravin Crossbows, Velocity expanded their archery product line into the higher-end segment of the crossbow market. In 2017, Velocity acquired the commercial product line of LaserMax, a leading designer and manufacturer of gun-mounted laser aiming devices.

Today, Velocity Outdoor is an international designer, manufacturer and marketer of Crosman and Benjamin airguns including related ammunition and accessories, archery products including the Ravin and CenterPoint crossbows, airsoft rifles, pistols, and ammunition, laser aiming devices, and precision optics.

Industry

Velocity Outdoor primarily competes within the airgun and archery sub-segments of the broader outdoor recreational products industry, which together management estimates constitute approximately $1.0 billion of annual retail revenue. Both categories share certain common characteristics, including consumer demand for innovation, similar sales channels, and unique regulatory frameworks.

The airgun industry is estimated by management to constitute approximately $275 million to $325 million of annual retail revenue, excluding consumables and accessories. With a history stretching back over a century, the industry is generally considered to be a mature sector, with stable growth rates in the low single digits. Airgun products are largely sold through mass merchants and national retailers, with each accounting for roughly 40% of purchases. Independent dealers and online platforms account for approximately 9% and 8% of purchases, respectively, while the balance is purchased directly from the manufacturer. Airguns are less seasonal than archery because there is no defined hunting season, although sales spike somewhat around holidays.

The archery equipment market is estimated by management to constitute between $750 million and $850 million of annual retail sales, of which $400-$450 million is attributable to bows and $350-$400 million is attributable to related archery accessories. Vertical and compound bows are the most prolific type of bow, comprising about half of the category sales, while crossbows make up approximately 35% and youth bows account for the remaining 15%. Outdoor retailers comprise the largest sales channel, accounting for approximately 45% of consumer purchases, while independent archery stores and big box retailers constitute 25% and 13% of total purchases, respectively. E-commerce has grown to hold a 15% share, primarily at the expense of independent archery retailers and big box stores while 2% are direct from the manufacturer.

Products and Services

Velocity designs, manufacturers and markets five categories of products: (i) airguns, (ii) archery products, (iii) consumables, or pellets, BBs and CO2 cartridges, (iv) optics, and (v) airsoft. Velocity's product strategy encompasses producing high quality, feature-rich products recognized by consumers for their craftsmanship and value, and building on a rich history to introduce innovative new products.

Airguns

Airguns represent Velocity's largest product category. The airgun product line consists of air rifles, air pistols and a range of accessories including targets, holsters and cases. Velocity's airguns are designed to be multi-purpose, multi-occasion products, for use in recreational plinking and target shooting, pest control, and hunting. Velocity offers a "good, better, best" array of airguns under the Crosman and Benjamin brands. The Crosman brand is known for high value at an accessible price, where the Benjamin brand is typically associated with premium products falling within the mid- to high-price point. Additionally, Velocity rounds out its offering with mid-level products produced under an exclusive licensing agreement with Remington for its Remington, Marlin, DPMS, and Bushmaster brands.

Archery Products
Velocity re-entered the archery market in 2016 with a product line anchored by the CenterPoint crossbow and the first-of-its-kind Pioneer Airbow. CenterPoint has grown rapidly since it was launched to become the second largest player in the crossbow category. The CenterPoint Sniper 370 is the top-selling SKU in the crossbow market, with more than twice the volume of its nearest competitor. CenterPoint acquired market share by offering features like an aluminum frame, higher shooting velocity, integrated string stops, a 4x32mm scope and shoulder sling at very competitive retail prices.
Concurrent with the launch of the CenterPoint line of crossbows, Velocity also introduced the Pioneer Airbow. The Pioneer Airbow created a new sportsman category as the first ever mass-produced air-powered archery device, effectively bridging the gap between airguns and archery. Velocity acquired Ravin Crossbows in 2018, further expanding its product line in the archery market. Ravin Crossbows is a leading designer, 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.
Consumables
Velocity's consumables segment consists of steel and plastic BBs, various styles of lead pellets, and single-use CO2 cartridges used to power airguns. BBs are typically used for plinking, training, or target shooting at a more affordable cost, while different pellet styles are designed either for accuracy, maximum penetration, or a combination of the two. Velocity is the world’s largest provider and only domestic manufacturer of CO2 cartridges, having first introduced the use of C02 as an airgun propellant in 1961. Consumables are produced under the Crosman, Benjamin, and Copperhead brand names.
Optics
Launched in 2006, Velocity's line of optics products offers high-performance, value-priced optics under the CenterPoint brand. The scopes, sights, binoculars, lights, and lasers are marketed for traditional firearms, in addition to select airgun and crossbow offerings. In 2017, Velocity added to their optics product line with the acquisition of the commercial division of LaserMax. LaserMax is a global leader in hardened and miniaturized laser systems, offering a comprehensive line of premium laser sights for home defense, personal protection and training use. LaserMax’s commercial business provides laser sighting solutions and tactical lights to the firearm original equipment manufacturers ("OEM") and retail channels. Management believes that the addition of the LaserMax products enables Velocity to reach a wider range of new customers across retail channels.
Airsoft
Airsoft guns are a class of air, CO2, gas, or electric-powered guns that are typically made from high-impact plastics and are engineered with recreation in mind to fire safe, plastic BBs quickly and accurately. Airsoft products are most often used for recreational purposes by a younger demographic and a strong user base amongst military and law enforcement customers. Velocity offers a broad portfolio of airsoft rifles and pistols under its owned Crosman Elite and Game Face brands, as well as the licensed U.S. Marines brand.
Competitive Conditions
Airguns
Velocity's airgun line competes with offerings from several airgun manufacturers, including Daisy Outdoor Products, Gamo Outdoor USA (which acquired Daisy in July 2016 but remains separately branded), Germany-based Umarex, and more recently Sig-Sauer, which has begun to produce its own line of airguns to complement its powdered firearms offering. The market for airguns is relatively concentrated, led by Crosman, Daisy, Gamo, and Umarex, according to Sports OneSource data. Key determinants in consumer purchasing decisions include product performance, quality, and brand loyalty.
Archery
The archery market competes within a “good, better, best” spectrum. Velocity's CenterPoint product line, as a value-for-price, entry to mid-level brand, tends to lie between the “good” and “better” segments, competing with Barnett Outdoors, Killer Instinct, and PSE technologies, among others. Consumers tend to make purchasing decisions based on brand awareness, reliability, customer service, and pricing. Although CenterPoint is a recent entry into the archery market, the brand has been able to outpace more established brands on the reliability, pricing, and service aspects to win market share. The Ravin product line has a higher price point and falls within the "best" segment for crossbows,

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competing with the higher end Tenpoint crossbows. Ravin entered the market in 2017 and has since become the number one selling brand as measured by retail dollars.

Business Strategies

Continued Innovation in Existing Product Categories

Velocity plans to continue to build on its successful history of bringing new, technically superior products to market through leveraging its stringent new product development process, internal manufacturing capabilities, and a flexible supply chain. The company has near-term new product launches and existing product updates planned across all categories, including the highlights below.

Airguns - Building on the Silencing Barrel Device (SBD) technology, Velocity is introducing a line of multi-shot break-barrel models that feature a 10 shot clip that advances automatically. Velocity is also enjoying success with licensed products under the Remington, DPMS, and Bushmaster brands.

Archery - On the heels of the successful 2016 launch of the CenterPoint crossbow line,Velocity has introduced new crossbow models at higher price point segments of the market, while continuing to build out its archery product line to include accessories and inclusive “ready-to-hunt” kits. Ravin recently introduced two new crossbow models that offer the same speed and accuracy as the current products in a lighter and shorter profile.

Optics - In addition to the recently launched three-model CenterPoint Spectrum First Focal Plane series of scopes, the company has plans to expand the CenterPoint optics offering to include binoculars and scope adapters. Additionally, following the launch of the grip activated GripSense lasers in 2017, the company has introduced a universal rail mounted laser featuring the same activation technology.

Expand into Adjacent Product Categories

Management believes that the company can leverage in-house manufacturing and sourcing partners to develop products in new categories that utilize Velocity's existing distribution network and brand strength.

Further Penetration of Existing Customer Accounts

Management has identified several strategies for further penetrating its existing customer accounts. First, Velocity has identified opportunities to leverage its existing relationships with retailers to drive expanded SKU offerings across categories. Additionally, management believes the company can expand the CenterPoint brand into the dealer network due to the acquisition of Ravin. Furthermore, management believes that the company is well positioned to grow as its brick-and-mortar customers adapt to a changing retail landscape. Velocity can leverage its structured analytical sales approach and new marketing initiatives to assist retailers with enhancing their online sales, similar to the strategies it already employs working with pure e-commerce customers like Amazon and Pyramyd Air.

Consolidation Platform

With a well-developed global supply chain, refined manufacturing capabilities, sophisticated management systems infrastructure, and extensive network of relevant relationships, Velocity sees itself as a platform for consolidation within both the broader outdoor recreational goods space and the archery space specifically. Management has identified a pipeline of potential acquisition targets that would help Velocity strengthen and expand its product offering and address new market segments.

International Growth

Velocity is exploring opportunities to grow international sales and increase market share by pursuing new international distributor relationships. Management has recently focused its efforts on key markets within Latin America. However, with a more fulsome archery product line in development, the Company is well positioned to expand into key international bowhunting markets such as Europe, Australia, New Zealand, and South Africa.

New Product Development

Velocity has developed a repeatable, structured product development process that integrates all areas of the business, including sales, marketing, engineering, purchasing, production and finance. New products must pass a 6 to 18 month stage gating process designed to ensure engineering and commercial viability. Once a product idea is identified, a five-phase step-by-step process is used to either (a) refine the idea into a producible, marketable good, or (b) identify contradicting data that may warrant the project being tabled or canceled altogether. A Product Development Committee must approve the advancement of a new product from one phase to the next. To balance the company’s new product pipeline, aging and underperforming SKUs are regularly culled. This intentional focus on constant innovation and

consumer feedback has helped Velocity establish a portfolio of highly-regarded brands across several product categories.

Customers

Velocity sells its products through nearly all major domestic mass merchants and sporting goods retailers, and has established a strong e-commerce platform to allow for flexibility in a changing retail environment. The four largest customers represent 44% of gross sales in 2018. Three represent the major sales channels; mass merchant, e-commerce, and regional retail, while the fourth represents the Junior Reserves Officers Training Corps (JROTC) contract award.

Seasonality

Velocity typically has higher sales in the third and fourth quarter each year, reflecting the hunting and holiday seasons, respectively.

Sales and Marketing

Velocity's products are sold through over 425 customers across a mix of sales channels, including mass merchants, national retailers, distributors/dealers/regional chains, international distributors, and e-commerce. Over the last 5 years, Management has successfully diversified both its sales channel composition and customer mix.

Velocity sells its products through nearly all major domestic mass merchants and sporting goods retailers currently selling airguns, and has established a strong e-commerce platform to allow for flexibility in a changing retail environment. The company has been selling to many of its customers for over 20 years, maintaining close relationships with key purchasing personnel through high-touch customer service. Velocity is one of the only players in the sportsman category offering category management services, product assortment, and SKU optimization feedback typical of larger multinational consumer products companies. This data-sharing has resulted in higher retailer sell-through and margin enhancement, more accurate sales forecasting, and a 98% fulfillment rate, all of which are key components in maintaining status as a vendor of choice.

Velocity maintains an internal sales team responsible for covering the vast majority of its customer relationships, or approximately 90% of total sales. Furthermore, Velocity supplements its in-house team with four independent sales representative organizations, providing coverage for approximate 375 additional customers across their respective geographic territories. International sales efforts are handled by Velocity-employed account executives who work through local distributors in order to ensure that products conform to local regulatory standards.

Velocity had a backlog of $3.5 million and $12.1 million, respectively, at December 31, 2018 and 2017.

Manufacturing and Distribution Channels

Velocity's product manufacturing is based on a dual strategy of in-house manufacturing and strategic alliances with select sub-contractors and vendors. Velocity conducts its domestic manufacturing operations in two locations. The first is a 225,000 square foot facility on a company-owned 49-acre campus located in East Bloomfield, New York, approximately 30 miles southeast of Rochester. The second is an 85,000 square foot leased facility in Superior, Wisconsin. In addition, the company utilizes approximately 144,000 square feet of leased warehouse space in nearby Farmington, New York, five miles from the East Bloomfield facility.

Intellectual Property

Velocity Outdoor currentlyholds a global portfolio of more than 100 registered trademarks and a global patent portfolio of more than 50 issued patents with many more pending. Management considers its patent holdings, trademarked brand names, preeminent name recognition, ability to design innovative products, and technical and marketing expertise to be its primary competitive advantages.

Regulatory Environment

Airguns

Airguns enjoy a relatively unrestrictive federal regulatory framework, with most regulations determined at the state level. Although there are no federal laws regulating their transfer, possession or use, non-powder guns are subject to oversight from the Consumer Product Safety Commission (“CSPC”). Therefore, airguns are subject to generalized statutory limitations involving “substantial product hazard” and articles that pose a substantial risk of injury to children, though the CSPC has not adopted specific mandatory regulations in this area. Federal law prevents states from prohibiting the sale of airguns, but allows for state-by-state restrictions on sales of airguns to minors. Thirteen states

have imposed such restrictions. Historically, there have not been attempts to grandfather the regulation of airguns into that of traditional powdered firearms, as legislative efforts have largely focused on responding to and refining the existing regulatory frameworks for each respective category rather than overhauling the coordination or transfer of enforcement duties across agencies.

Archery

Crossbow hunting restrictions have become less stringent over the last ten years. Since 2006, 12 states, including populous hunting states like Wisconsin, Pennsylvania, and North Carolina, have legalized crossbow hunting, while many others moved to relax restrictions through the opening of limited seasons or creation of exceptions to hunting restrictions for those with disabilities. Today, only Oregon classifies crossbows as illegal. As of 2017, nearly 90% of all hunting permits are filed in states that currently allow crossbow hunting for at least part of the season. Although continued deregulation is expected, it likely will not continue to be a large driver for the crossbow category moving forward.

Employees

Velocity had 333 employees at December 31, 2018. Velocity's labor force is non-union. Management believes that Velocity has an excellent relationship with its employees.

Niche Industrial Businesses

Advanced Circuits

Overview

Advanced Circuits, headquartered in Aurora, Colorado, is a provider of small-run, quick-turn and production rigid PCBs, throughout the United States. Advanced Circuits also provides its customers with assembly services in order to meet its customers' complete PCB needs. The small-run and quick-turn portions of the PCB industry are characterized by customers requiring high levels of responsiveness, technical support and timely delivery. Due to the critical roles that PCBs play in the research and development process of electronics, customers often place more emphasis on the turnaround time and quality of a customized PCB than on the price. Advanced Circuits meets this market need by manufacturing and delivering custom PCBs in as little as 24 hours, providing customers with over 98% error-free production and real-time customer service and product tracking 24 hours per day.

History of Advanced Circuits

Advanced Circuits commenced operations in 1989 through the acquisition of a small Denver-based PCB manufacturer. During its first years of operations, Advanced Circuits focused exclusively on manufacturing high volume, production run PCBs with a small group of proportionately large customers. After the loss of a significant customer in the early 1990s, Advanced Circuits began focusing on developing a diverse customer base, and in particular, on meeting the demands of equipment manufacturers with low-volume, high-margin, customized small-run and quick-turn PCBs.

We purchased a controlling interest in Advanced Circuits on May 16, 2006. Since our acquisition, Advanced Circuits has completed several add-on acquisitions that expanded their customer base in various industries and sectors, including the aerospace and defense industry and the long-lead sector. Over 50% of Advanced Circuits' sales are derived from highly profitable small-run and quick-turn production PCBs. Advanced Circuits' success is demonstrated by its broad base of over 11,000 customers with which it does business throughout the year.

Industry

The PCB industry, which consists of both large global PCB manufacturers and small regional PCB manufacturers, is a vital component to all electronic equipment supply chains, as PCBs serve as the foundation for virtually all electronic products, including cellular telephones, appliances, personal computers, routers, switches and network servers. PCBs are used by manufacturers of these types of electronic products, as well as by persons and teams engaged in research and development of new types of equipment and technologies.

Several significant trends are present within the PCB manufacturing industry. Production of PCBs in North America has declined in recent years due to increased competition for volume production of PCBs from Asian competitors benefiting from both lower labor costs and less restrictive waste and environmental regulations. Asian based manufacturers of PCBs are capitalizing on their lower labor costs and increasing their market share of volume production PCBs, which are used in high volume consumer electronics application such as computers and cell phones. This "offshoring" of high-volume production orders has placed increased pricing pressure and margin compression on many

small domestic manufacturers that are no longer operating at full capacity. Many of these small producers are choosing to cease operations, rather than operate at a loss, as their scale, plant design and customer relationships do not allow them to focus profitably on the small-run and quick-turn sectors of the market. While Asian manufacturers have made large market share gains in the PCB industry overall, small-run and quick-turn production, some of the more complex volume production, and military production have remained strong in the United States. Rapid advances in technology are significantly shortening product life-cycles and placing increased pressure on original equipment manufacturers ("OEMs") to develop new products in shorter periods of time. In response to these pressures, OEMs invest heavily in research and development, which results in a demand for PCB companies that can offer engineering support and quick-turn production services to minimize the product development process. Additionally, increased complexity of electronic equipment requires maintaining the production infrastructure necessary to manufacture PCBs of increasing complexity. This often requires significant capital expenditures and has acted to reduce the competitiveness of local and regional PCB manufacturers lacking the scale to make such investments.

Both globally and domestically, the PCB market can be separated into three categories based on required lead time and order volume:

- Small-run PCBs — These PCBs are typically manufactured for customers in research and development departments of OEMs, and academic institutions. Small-run PCBs are manufactured to the specifications of the customer, within certain manufacturing guidelines designed to increase speed and reduce production costs. Prototyping is a critical stage in the research and development of new products. These small-runs are used in the design and launch of new electronic equipment and are typically ordered in volumes of 1 to 50 PCBs. Because the small-run is used primarily in the research and development phase of a new electronic product, the life cycle is relatively short and requires accelerated delivery time frames of usually less than five days and very high, error-free quality. Order, production and delivery time, as well as responsiveness with respect to each, are key factors for customers as PCBs are indispensable to their research and development activities.
- Quick-Turn Production PCBs — These PCBs are used for intermediate stages of testing for new products prior to full scale production. After a new product has successfully completed the small-run phase, customers undergo test marketing and other technical testing. This stage requires production of larger quantities of PCBs in a short period of time, generally 10 days or less, while it does not yet require high production volumes. This transition stage between low-volume small-run production and volume production is known as quick-turn production. Manufacturing specifications conform strictly to end product requirements and order quantities are typically in volumes of 10 to 500. Similar to small-run PCBs, response time remains crucial as the delivery of quick-turn PCBs can be a gating item in the development of electronic products. Orders for quick-turn production PCBs conform specifically to the customer’s exact end product requirements.
- Volume Production PCBs — These PCBs, which we sometimes refer to as “long lead” and “sub-contract” are used in the full scale production of electronic equipment and specifications conform strictly to end product requirements. Volume Production PCBs are ordered in large quantities, usually over 100 units, and response time is less important, ranging between 15 days to 10 weeks or more.

These categories can be further distinguished based on board complexity, with each portion facing different competitive threats. Advanced Circuits competes largely in the small-run and quick-turn production portions of the North American market, which have not been significantly impacted by Asian-based manufacturers due to the quick response time required for these products. Management believes the North American PCB market was estimated to be approximately $3.5 billion in 2018.

Products and Services

A PCB is comprised of layers of laminate and contains patterns of electrical circuitry to connect electronic components. Advanced Circuits typically manufactures 2 to 20 layer PCBs, and has the capability to manufacture even higher layer PCBs. The level of PCB complexity is determined by several characteristics, including size, layer count, density (line width and spacing), materials and functionality. Beyond complexity, a PCB’s unit cost is determined by the quantity of identical units ordered, as engineering and production setup costs per unit decrease with order volume, and required production time, as longer times often allow increased efficiencies and better production management. Advanced Circuits primarily manufactures lower complexity PCBs.

Advanced Circuits assists its customers throughout the life-cycle of their products, from product conception through volume production. Advanced Circuits works closely with customers throughout each phase of the PCB development process, beginning with the PCB design verification stage using its unique online FreeDFM.com tool, FreeDFM.com,™ which enables customers to receive a free manufacturability assessment report within minutes, resolving design problems that would prohibit manufacturability before the order process is completed and manufacturing begins. The combination of Advanced Circuits' user-friendly website and its design verification tool reduces the amount of human labor involved in the manufacture of each order as PCBs move from Advanced Circuits' website directly to its computer numerical control, or CNC, machines for production, saving Advanced Circuits and customers cost and time. As a result of its ability to rapidly and reliably respond to the critical customer requirements, Advanced Circuits receives a premium for their small-run and quick-turn PCBs as compared to volume production PCBs.

Advanced Circuits manufactures all high margin small-runs and quick-turn orders internally and occasionally utilizes external partners to manufacture production orders that do not fit within its capabilities or capacity constraints at a given time. As a result, Advanced Circuits constantly adjusts the portion of volume production PCBs produced internally to both maximize profitability and ensure that internal capacity is fully utilized.

The following table shows Advanced Circuits' gross revenue by products and services for the periods indicated:

Gross Sales by Products and Services (1)	Year Ended December 31,		
	2018	2017	2016
Small-run Production	18.9 %	20.4 %	21.8 %
Quick-Turn Production	33.0 %	33.0 %	31.8 %
Volume Production (including assembly)	45.4 %	44.8 %	45.2 %
Third Party	2.7 %	1.8 %	1.2 %
Total	100.0%	100.0%	100.0%

(1) As a percentage of gross sales, exclusive of sale discounts.

Competitive Strengths

Advanced Circuits has established itself as a leading provider of small-run and quick-turn PCBs in North America and focuses on satisfying customer demand for on-time delivery of high-quality PCBs. Advanced Circuits' management believes the following factors differentiate it from many industry competitors:

- Numerous Unique Orders Per Day — Advanced Circuits receives on average over 300 customer orders per day. Due to the large quantity of orders received, Advanced Circuits is able to combine multiple orders in a single panel design prior to production. Through this process, Advanced Circuits is able to reduce the number of costly, labor intensive equipment set-ups required to complete several manufacturing orders. As labor represents the single largest cost of production, management believes this capability gives Advanced Circuits a unique advantage over other industry participants.
- Diverse Customer Base — Advanced Circuits possesses a customer base with little industry or customer concentration exposure. For each of the years ended December 31, 2018, 2017 and 2016, no customer represented more than 2% of net sales.
- Highly Responsive Culture and Organization — A key strength of Advanced Circuits is its ability to quickly respond to customer orders and complete the production process. In contrast to many competitors that require a day or more to offer price quotes on small-run or quick-turn production, Advanced Circuits offers its customers quotes within seconds and the ability to place or track orders any time of day. In addition, Advanced Circuits' production facility operates three shifts per day and is able to ship a customer's product within 24 hours of receiving its order.
- Proprietary FreeDFM.com™ Software — Advanced Circuits offers its customers unique design verification services through its online FreeDFM.com tool. This tool enables customers to receive a free manufacturability assessment report, within minutes, resolving design problems before customers place their orders. The service is relied upon by many of Advanced Circuits' customers to reduce design errors and minimize production costs. Beyond improved customer service, FreeDFM.com™ has the added benefit of improving the efficiency of Advanced Circuits' engineers, as many routine design problems, which typically require an engineer's time and attention to identify, are identified and sent back to customers automatically.
- Established Partner Network — Advanced Circuits has established third party production relationships with PCB manufacturers in North America and Asia. Through these relationships, Advanced Circuits is able to offer its customers a complete suite of products including those outside of its core production capabilities. Additionally, these relationships allow Advanced Circuits to outsource orders for volume production and focus internal capacity on higher margin, short lead time, production and quick-turn manufacturing.

Business Strategies

Advanced Circuits' management is focused on strategies to increase market share and further improve operating efficiencies. The following is a discussion of these strategies:

Increase Portion of Revenue from Small-run and Quick-Turn Production — Advanced Circuits' management believes it can grow revenues and cash flow by continuing to leverage its core small-run and quick-turn capabilities. Over its history, Advanced Circuits has developed a suite of capabilities that management believes allow it to offer a combination of price and customer service unequaled in the market. Advanced Circuits intends to leverage this factor, as well as its core skill set, to increase net sales derived from higher margin small-run and quick-turn production PCBs.

Acquire Customers from Local and Regional Competitors — Advanced Circuits' management believes the majority of its competition for small-run and quick-turn PCB orders comes from smaller scale local and regional PCB manufacturers. Advanced Circuits continues to enter into small-run and quick-turn manufacturing relationships with several subscale local and regional PCB manufacturers. Management believes that while many of these manufacturers maintain strong, long-standing customer relationships, they are unable to produce PCBs with short turn-around times at competitive prices. As a result, Advanced Circuits sees an opportunity for growth by providing production support to these manufacturers or direct support to the customers of these manufacturers, whereby the manufacturers act more as a broker for the relationship.

Remain Committed to Customers and Employees — Advanced Circuits has remained focused on providing the highest quality products and services to its customers. Management believes this focus has allowed Advanced Circuits to achieve its outstanding delivery and quality record. Advanced Circuits' management believes this reputation is a key competitive differentiator and is focused on maintaining and building upon it. Similarly, management believes its committed base of employees is a key differentiating factor. Management believes that Advanced Circuits' emphasis on sharing rewards and creating a positive work environment has led to increased loyalty. Advanced Circuits plans to continue to focus on similar programs to maintain this competitive advantage.

Opportunistically Acquire Smaller PCB Manufacturers — Historically, Advanced Circuits has selectively made tuck-in acquisitions of regional PCB manufacturers. Management will continue to seek tuck-in acquisitions of smaller PCB manufacturers where sales and operational efficiencies can be realized, or strategic technical capabilities expanded.

Research and Development

Advanced Circuits engages in continual research and development activities in the ordinary course of business to update or strengthen its order processing, production and delivery systems. By engaging in these activities, Advanced Circuits expects to maintain and build upon the competitive strengths from which it benefits currently. Research and development expenses were not material in each of the last three years.

Customers and Distribution Channels

Advanced Circuits' focus on customer service and product quality has resulted in a broad base of customers in a variety of end markets, including industrial, consumer, telecommunications, aerospace/defense, biotechnology and electronics manufacturing. These customers range in size from large, blue-chip manufacturers to small, not-for-profit university engineering departments. The following table sets forth management's estimate of Advanced Circuits' approximate customer breakdown by industry sector for the fiscal years ended December 31, 2018, 2017 and 2016:

	Customer Distribution		
Industry Sector	2018	2017	2016
Electrical Equipment and Components	25 %	24 %	22 %
Measuring Instruments	3 %	5 %	4 %
Electronics Manufacturing Services	21 %	24 %	21 %
Engineer Services	2 %	3 %	4 %
Industrial and Commercial Machinery	16 %	15 %	12 %
Business Services	1 %	1 %	2 %
Wholesale Trade-Durable Goods	1 %	1 %	1 %
Educational Institutions	12 %	10 %	17 %
Transportation Equipment	7 %	8 %	12 %
All Other Sectors Combined	12 %	9 %	5 %
Total	100%	100%	100%

Management estimates that over 75% of its orders are generated from existing customers. Moreover, more than half of Advanced Circuits' orders in each of the years 2018, 2017 and 2016 were delivered within five days (not including long-lead orders). In a typical year, no single customer represents more than 3% of Advanced Circuits' sales.

Sales and Marketing

Advanced Circuits has established a "consumer products" marketing strategy to both acquire new customers and retain existing customers. Advanced Circuits uses initiatives such as direct mail postcards, web banners, aggressive pricing specials and proactive outbound customer call programs as part of this strategy. Advanced Circuits spends approximately 1% of net sales each year on its marketing initiatives and advertising and has employees organized geographically throughout North America dedicated to its marketing and sales efforts. The sales team takes a systematic approach to placing sales calls and receiving inquiries and, on average, will place over 200 outbound sales calls and receive approximately 140 inbound phone inquiries per day. Beyond proactive customer acquisition initiatives, management believes a substantial portion of new customers are acquired through referrals from existing customers. In addition, other customers are acquired on-line where Advanced Circuits generates over 90% of its orders from its website. Substantially all revenue is derived from sales within the United States.

Advanced Circuits, due to the volume of small-run and quick turn sales, had a negligible amount in firm backlog orders at December 31, 2018 and 2017.

Competition

There are currently an estimated 165 active domestic PCB manufacturers. Advanced Circuits' competitors differ amongst its products and services.

Competitors in the small-run and quick-turn PCBs production industry include larger companies as well as small domestic manufacturers. The largest independent domestic small-run and quick-turn PCB manufacturer in North America is TTM Technologies, Inc. Though this company produces small-run PCBs to varying degrees, in many ways it is not a direct competitor with Advanced Circuits. In recent years, larger competitors have primarily focused on producing boards with greater complexity in response to the offshoring of low and medium layer count technology to Asia. Compared to Advanced Circuits, small-run and quick-turn PCB production accounts for much smaller portions of larger competitors revenues. Further, these competitors often have much greater customer concentrations and a greater portion of sales through large electronics manufacturing services intermediaries. Beyond large, public companies, Advanced Circuits' competitors include numerous small, local and regional manufacturers, often with revenues under $20 million that have long-term customer relationships and typically produce both small-run and quick-turn PCBs and production PCBs for small OEMs and EMS companies. The competitive factors in small-run and quick-turn production PCBs are response time, quality, error-free production and customer service. Competitors in the long lead-time production PCBs generally include large companies, including Asian manufacturers, where price is the key competitive factor.

New market entrants into small-run and quick-turn production PCBs confront substantial barriers including significant investments in equipment, highly skilled workforce with extensive engineering knowledge and compliance with

environmental regulations. Beyond these tangible barriers, Advanced Circuits' management believes that its network of customers, established over the last two decades, would be very difficult for a competitor to replicate.

Suppliers

Advanced Circuits' raw materials inventory is small relative to sales and must be regularly and rapidly replenished. Advanced Circuits uses a just-in-time procurement practice to maintain raw materials inventory at low levels. Additionally, Advanced Circuits has established consignment relationships with several vendors allowing it to pay for raw materials as used. Because it provides primarily lower-volume quick-turn services, this inventory policy does not hamper its ability to complete customer orders. Raw material costs constituted approximately 23%, 21% and 19% of net sales for each of the fiscal years ended December 31, 2018, 2017 and 2016, respectively.

The primary raw materials that are used in production are core materials, such as copper clad layers of glass and chemical solutions, and copper and gold for plating operations, photographic film and carbide drill bits. Multiple suppliers and sources exist for all materials. Adequate amounts of all raw materials have been available in the past, and Advanced Circuits' management believes this will continue in the foreseeable future. Advanced Circuits works closely with its suppliers to incorporate technological advances in the raw materials they purchase. Advanced Circuits does not believe that it has significant exposure to fluctuations in raw material prices. The fact that price is not the primary factor affecting the purchase decision of many of Advanced Circuits' customers has allowed management to historically pass along a portion of raw material price increases to its customers. Advanced Circuits does not knowingly purchase material originating in the Democratic Republic of the Congo or adjoining countries.

Intellectual Property

Advanced Circuits seeks to protect certain proprietary technology by entering into confidentiality and non-disclosure agreements with its employees, consultants and customers, as needed, and generally limits access to and distribution of its proprietary information and processes. Advanced Circuits' management does not believe that patents are critical to protecting Advanced Circuits' core intellectual property, but, rather, its effective and quick execution of fabrication techniques, its website FreeDFM.com™ and its highly skilled workforce are the primary factors in maintaining its competitive position.

Advanced Circuits uses the following brand names: FreeDFM.com,™ 4pcb.com,™ 4PCB.com,™ 33each.com,™ barebonespcb.com™ and Advanced Circuits.™ These trade names have strong brand equity and are material to Advanced Circuits' business.

Regulatory Environment

Advanced Circuits' manufacturing operations and facilities are subject to evolving federal, state and local environmental and occupational health and safety laws and regulations. These include laws and regulations governing air emissions, wastewater discharge and the storage and handling of chemicals and hazardous substances. Management believes that Advanced Circuits is in compliance, in all material respects, with applicable environmental and occupational health and safety laws and regulations. New requirements, more stringent application of existing requirements, or discovery of previously unknown environmental conditions may result in material environmental expenditures in the future. Advanced Circuits has been recognized three times for exemplary environmental compliance and it was awarded the Denver Metro Wastewater Reclamation District Gold Award for seven of the last ten years.

Employees

As of December 31, 2018, Advanced Circuits employed 474 persons. None of Advanced Circuits' employees are subject to collective bargaining agreements. Advanced Circuits believes its relationship with its employees is good.

Arnold

Overview

Headquartered in Rochester, New York, 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 100+ years, Arnold has successfully evolved and adapted our products, technologies, and manufacturing presence to meet the demands of current and emerging markets. Arnold has expanded globally and built strong relationships with our customers worldwide. As a result, Arnold leads the way in our chosen industries with new materials and solutions that empower our customers to develop next generation technologies. Arnold is the largest

and, we believe, the most technically advanced U.S. manufacturer of engineered magnetic systems. Arnold is one of two domestic producers to design, engineer and manufacture rare earth magnetic solutions. Arnold serves customers and generates revenues via three business units:

- PMAG - Permanent Magnets and Assemblies Group- Arnold's high performance permanent magnets have a wide variety of applications, mainly used for rotating electrical machinery such as motor and generators. Industries include aerospace and defense, energy exploration, industrial, medical and motorsport.
- Precision Thin Metals - Produces thin and ultra-thin alloys that improve the power density electrical systems such as motors, generators, and transformers along with thin foils for other applications such as electromagnetic shielding, lightweight structures, and implantable structures. Industries include aerospace and defense, energy exploration, industrial, medical, and motorsport.
- Flexmag™ - The highest quality flexible magnetic sheet and strip, Flexmag products not only are magnetic but their processing capabilities allow for loading of a variety of materials into their flexible sheet products. Industries include industrial, medical, defense, marketing, and automotive.

Arnold operates 9 manufacturing facilities worldwide split under the three business units shown above but functions as one company and one team.

History of Arnold

Arnold was founded in 1895 as the Arnold Electric Power Station Company. Arnold began producing AlNiCo permanent magnets in its Marengo, Illinois facility in the mid-1930s. In 1946, Allegheny Ludlum Steel Corporation (Allegheny) purchased Arnold, and over the next few years began production of several additional magnetic product lines under license agreement with the Western Electric Company. In 1970, Arnold acquired Ogallala Electronics, which manufactured high power coils and electromagnets.

SPS Technologies (SPS), at the time a publicly traded company, purchased Arnold Engineering Company from Allegheny in 1986. Under SPS, Arnold made a series of acquisitions and partnerships to expand its portfolio and geographic reach. In 2003, Precision Castparts, also a publicly traded company, acquired SPS. In January 2005, Audax, a Boston-based private equity firm acquired Arnold from Precision Castparts.

In February 2007, Arnold Magnetic Technologies completed the acquisition of Precision Magnetics, which expanded its geographic footprint to include operations in Sheffield, England and Lupfig, Switzerland. In addition, Arnold's Lupfig, Switzerland operation is a joint venture partner with a Chinese rare earth producer. The joint venture manufactures RECOMA® Samarium Cobalt blocks for select markets.

In 2016 Arnold developed and launched the world's strongest Samarium Cobalt magnet grade, RECOMA 35E, that enables significant opportunity for increased performance in smaller packages, and at higher temperatures, with no trade off in stability.

We purchased a majority interest in Arnold on March 5, 2012. With the support of CODI, Arnold has made significant investment to support future growth strategies.

Industry

Permanent Magnets

There exists a broad range of permanent magnets which include Rare Earth Magnets and magnets made from specialty magnetic alloys. Magnets produced from these materials may be sliced, ground, coated and magnetized to customer requirements. Those industry players with the broadest portfolio of these magnets, such as Arnold, maintain a significant competitive advantage over competitors as they are able to offer one-stop shop capabilities to customers. Management believes that being a manufacturer of these magnets, subject to patent rights, is another critical market advantage.

Magnetic Assemblies- Arnold offers complex, customized value added magnetic assemblies. These assemblies are used in devices such as motors, generators, beam focusing arrays, sensors, and solenoid actuators. Magnetic assembly production capabilities include machined metal components, magnet fabrication, machining, encapsulation or sleeving, balancing, and field mapping.

Precision Strip and Foil

Precision rolled thin metal foil products are manufactured from a wide range of materials for use in applications such as transformers, motor laminations, lightweight structures, shielding, and composite structures. They have the unique processing capability to roll foils as thin as 2.5 microns while providing critical heat treatment maintaining competitive material properties. Once completed the product is coated if necessary and is slit to the application width.

Flexible Magnets

Flexible magnet products span the range of applications from advertising (refrigerator magnets and displays) to medical applications (needle counters) to sealing and holding applications (door gaskets). Other applications include Electromagnetic or Radio Frequency Shielding for high end electronics.

Products and Services

Permanent Magnets and Assemblies Group

Arnold's Permanent Magnets and Assemblies Group (PMAG) segment is a leading global manufacturer of precision magnetic assemblies and high-performance magnets. The segment's products include tight tolerance assemblies consisting of many dozens of components and employing RECOMA® SmCo, Neo, and AlNiCo magnets. These products are sold to a wide range of industries including aerospace and defense, motorsport/ automotive, oil and gas, medical, general industrial, energy and reprographics. Arnold has established a reputation in the magnetic industry as the engineering solutions provider, assisting customers to ensure their critical assemblies meet expectations.

PMAG is Arnold's largest business unit representing approximately 74% of Arnold sales on an annualized basis (including Reprographics) with a global footprint including manufacturing facilities in the U.S., U.K., Switzerland, and China.

PMAG—Products and Applications:

- High precision magnetic rotors for use in electric motors and generators. Typically used in demanding applications such as aerospace and defense, oil and gas exploration, energy recovery systems, power dense medical equipment, and under the hood automotive
- Sealed pump couplings
- Beam focusing assemblies such as traveling wave tubes
- Oil & Gas exploration tools as well as pipeline inspection and down hole power generation
- Linear positioning Hall effect sensor systems

Rare Earth Magnets

- Samarium Cobalt (SmCo) - SmCo magnets are typically used in critical applications that require corrosion resistance or high temperature stability, such as motors, generators, actuators and sensors. Arnold markets its SmCo magnets under the trade name of RECOMA ®, and is DFARS (Defense Federal Acquisition Regulation) compliant.
- Neodymium (Neo) - Neo magnets offer the highest magnetic energy level of any material in the market. Applications include motors and generators, magnetic resonance imaging, magnetic inspection systems, sensors and loudspeakers.

Other Permanent Magnet Types

- AlNiCo - The AlNiCo family of magnets remains a preferred material for many mission critical applications. Its favorable linear temperature characteristics, high magnetic flux density and good corrosion resistance are ideally suited for use in applications requiring magnetic stability. This material is manufactured by Arnold in the United States, making it a DFARS compliant material.
- Hard Ferrite - Hard ferrite (ceramic) magnets were developed as a low cost alternative to metallic magnets (steel and AlNiCo). Although they exhibit lower energy when compared to other materials available today and are relatively brittle, ferrite magnets have gained acceptance due to their low price per magnetic output.
- Injection Molded - Injection molded magnets are a composite of various types of resin and magnetic powders. The physical and magnetic properties of the product depend on the raw materials, but are generally lower in magnetic strength and resemble plastics in their physical properties. However, a major benefit of the injection

molding process is that magnet material can be injection or over-molded, eliminating subsequent manufacturing steps.

Precision Thin Metals

Arnold's precision thin metals segment manufactures precision thin strip and foil products from an array of materials and represents approximately 8% of Arnold sales on an annualized basis. The Precision Thin Metals segment serves the aerospace and defense, power transmission, alternative energy (hybrids, wind, battery, solar), medical, security, and general industrial end-markets. With top-of-the-line equipment and superior engineering, Precision Thin Metals has developed unique processing capabilities that allow it to produce foils and strip with precision and quality that are unmatched in the industry (down to 1/10th thickness of a human hair). In addition, the segment's facility is capable of increasing production from current levels with its existing equipment and is, we believe, well-positioned to realize future growth.

Precision Thin Metals—Products and Applications:

- Electrical steels for hybrid propulsion systems, electric motors, and micro turbines
- Electromagnetic and Radio Frequency Shielding
- Lightweight structures for aerospace applications
- Irradiation windows
- Batteries
- Military countermeasures

Flexmag

Arnold is one of two North American manufacturers of flexible rubber magnets for specialty advertising, medical, and reprographic applications. Flexmag represents approximately 18% of Arnold sales on an annualized basis. It primarily sells its products to specialty advertisers and original equipment manufacturers. With highly automated manufacturing processes, Flexmag can accommodate customers required short lead times. Flexmag benefits from a loyal customer base and significant barriers to entry in the industry. Flexmag's success is driven by superior customer service, and proprietary formulations offering enhanced product performance.

Flexmag—Products and Applications:

- Extruded and calendared flexible rubber magnets with optional laminated printable substrates
- Electromagnetic and Radio Frequency Shielding
- Retail displays
- Theft detection/ security
- Seals and enclosures
- Signage for various advertising and promotions

Competitive Strengths

Competitive Landscape

The specialty magnetic systems industry is highly fragmented, creating a competitive landscape with a variety of magnetic component manufacturers. However, few have the breadth of capabilities that Arnold possesses. Manufacturers compete on the basis of technical innovation, co-development capabilities, time-to-market, quality, geographic reach and total cost of ownership. Industry competitors relevant to Arnold's served markets range from large multinational manufacturers to small, regional participants. Given these dynamics, we believe the industry will likely favor players that are able to achieve vertical integration and a diversification of offerings across a breadth of products along with magnet engineering and design expertise. The focus will be engineering solutions together with our customers.

Barriers to Entry

- Low Substitution Risk – Arnold's solutions are typically specified into its customers' program designs through a co-development and qualification process that often takes 6-18 months. Arnold's customers are typically contractors and component manufacturers whose products are integrated into end-customers' applications. The high cost of failure, relatively low proportionate cost of magnets to the final product, sometimes lengthy testing and qualification process, and substantial upfront co-engineering investment required, represent significant barriers to customers changing solution providers such as Arnold.

- Equipment and Processing – Arnold's existing base of production equipment has a significant estimated replacement cost. A new entrant could require as much as 2-3 years of lead time to match the process performance requirements, customization of equipment and material formulations necessary to effectively compete in the specialty magnet industry. Further, given the program nature of a majority Arnold's sales, management estimates that it could take 5-10 years to build a sufficient book of business and base of institutional knowledge to generate positive cash flow out of a new manufacturing plant.

Business Strategies

Engineering and Product Development

Arnold's engineers work closely with the customer to provide system solutions, representing a significant competitive advantage. Arnold's engineering expertise is leveraged with state-of-the-art technology across the various business units located in North America, Europe and Asia Pacific. Arnold's engineers work with customers on a global basis to optimize designs, guide material choices, and create magnetic models resulting in Arnold's products being specified into customer designs.

Arnold has a talented and experienced engineering staff of design and application experts, quality personnel and technicians. Included in this team are engineers with backgrounds in materials science, physics, and metallurgical engineering. Other members of the team bring backgrounds in ceramics, mechanical engineering, chemical engineering and electrical engineering.

Arnold continues to be an industry leader with regard to new product formulations and innovations. As evidence of this, Arnold currently relies on a deep portfolio of "trade secrets" and internal intellectual property. Arnold continuously endeavors to introduce magnet solutions that exceed the performance of current offerings and meet customer design specifications.

Growth in Arnold's business is primarily focused in three areas:

(i) Growing market share in existing end-markets and geographies, with a focus on aerospace and defense, medical and niche industrial systems;

(ii) Vertical integration through new products and technologies;

(iii) Completing opportunistic acquisitions and partnerships to reduce product introduction and market penetration time.

Existing End-Markets and Geographies

Aerospace and Defense

In the aerospace and defense sector, Arnold is selling magnets, magnetic assemblies and ultra-thin foil solutions. Specifically, in the aerospace industry, Arnold's assemblies have been designed into products, which enables Arnold to benefit from the market growth and a healthy flow of business based on current airframe orders. Through its OEM customers, essentially all new commercial aircraft placed in service contain assemblies produced by Arnold. Arnold's sales to large aerospace and defense manufacturers includes magnetic assemblies used in applications such as motors and generators, actuators, trigger mechanisms, and guidance systems, as well as magnets for these and other uses. In addition, it sells its ultra-thin foil for use in military countermeasures, lightweight structures, brazing alloys, and motor laminations.

Motorsport / Automotive

Arnold produces high performance motor components and sub-assemblies for motorsport and automotive applications, such as Kinetic Energy Recovery System, which includes a composite sleeved RECOMA® SmCo magnet rotor for a high speed, high power system and Electric Turbo Chargers that operate at > 100,000 RPM. Further emerging magnetic applications include electric traction drives, regenerative braking systems, starter generators, and electric turbo charging. As much of this technology utilizes magnetic systems, Arnold expects to benefit from this trend.

Oil and Gas

Arnold currently provides magnets and precision assemblies for use in oil and gas exploration and production, applications which typically require exceptional collaboration and co-development with its customers. Arnold supplies products used in applications such as electric submersible pumps, oil well shutoff valves, down-hole logging while

drilling tooling, and a down-hole magnetic transfer coupling. Other applications for which Arnold is actively involved include pipeline inspection, wireless tomography tools, and chip collection.

Medical

Within the medical sector, Arnold provides magnetic assemblies, magnets, flexible magnets, and ultrathin foils. Its magnet assemblies and magnets are critical parts of motor systems for dental instruments as well as saws and grinders. Magnet assemblies are also provided for skin expansion systems, shunt valves, and position sensors. Its Precision Thin Metals business unit is providing a specialty alloy for advanced breast cancer treatment. They also provide precision titanium used for implantable devices.

General Industrial

Within the industrial sector, Arnold provides magnet assemblies as well as magnets for custom made motor systems. These include stepper motors, pick and place robotic systems, and new designs that are increasingly being required by regulation to meet energy efficiency standards. An example is a motor utilizing Arnold's bonded magnets for use in commercial refrigeration systems. Arnold also produces magnetic couplings for seal-less pumps used in chemical and oil & gas applications that allow chemical companies to meet environmental requirements.

Energy

Arnold's Precision Thin Metals segment supplies grain-oriented silicon steel produced with proprietary methods for use in transformers and inductors. These cores allow for the production of very efficient transformers and inductors while minimizing size. In addition, Arnold's magnet solutions can be found in advanced automatic circuit re-closer solutions that substantially reduce the stress on system components on the grid. Arnold's solutions are also present in new power storage systems. The permanent magnet bearings used in new designs improve the efficiency of the flywheel energy storage system.

Research and Development

Arnold has a core research and development team with extensive industry experience. In addition to the core engineering group, a large number of other Arnold staff members assigned to the business units contribute to the research and development effort at various stages. Product development also includes collaborating with customers and field testing. This feedback helps ensure products will meet Arnold's demanding standards of excellence as well as the constantly changing needs of end users. Arnold's research and development activities are supported by state-of-the-art engineering software design tools, integrated manufacturing facilities and a performance testing center equipped to ensure product safety, durability and superior performance.

Customers and Distribution Channels

Arnold's focus on customer service and product quality has resulted in a broad base of customers in a variety of end markets. Products are used in applications such as aerospace and defense, motorsport / automotive, oil and gas, medical, general industrial, energy, reprographics ,and advertising specialties.

The following table sets forth management's estimate of Arnold's approximate customer breakdown by industry sector for the fiscal years ended December 31, 2018, 2017 and 2016:

	Customer Distribution		
Industry Sector	2018	2017	2016
Aerospace and Defense	31 %	25 %	28 %
General Industrial	26 %	28 %	24 %
Advertising specialties	12 %	13 %	13 %
Motorsport/ automotive	11 %	13 %	12 %
Reprographic	6 %	7 %	11 %
Oil and Gas	5 %	4 %	2 %
Energy	4 %	4 %	3 %
Medical	3 %	3 %	3 %
All Other Sectors Combined	2 %	3 %	4 %
Total	100%	100%	100%

Arnold has a large and diverse, blue-chip customer base. Sales to Arnold's top ten customers were 26% of total sales for the year ended December 31, 2018, 24% of total sales for the year ended December 31, 2017, and 29% of total sales for the year ended December 31, 2016. No customer represented greater that 10% of Arnold's net revenues in 2018.

Sales and Marketing

Arnold has a global team of direct sales and marketing professionals and critical design and application engineers for each of its product lines. The Arnold sales force is organized for regional coverage with a focus on sales in the U.S., Europe, and Asia-Pacific. The majority of revenues for each business unit are project based, and Arnold's highly-qualified application engineers are often integrated into its customers' product design, planning, and implementation phases, offering the most cost-effective solution for demanding clients.

Arnold had firm backlog orders totaling approximately $48.3 million and $43.7 million, respectively, at December 31, 2018 and 2017.

Competition

Management believes the following companies represent Arnold's top competitors:

- Vacuumschmelze Gruner
- Dexter Magnetic Technologies
- Electron Energy Corp
- Magnum Magnetics Corporation
- Thomas & Skinner

Suppliers

Raw materials utilized by Arnold include nickel and cobalt, stainless steel shafts, Inconel sleeves, adhesives, laminates, aluminum extrusions and binders. Although Arnold considers its relationships with vendors to be strong, Arnold's management team also maintains a variety of alternative sources of comparable quality, quantity and price. The management team therefore believes that it is not dependent upon any single vendor to meet its sourcing needs. Arnold is generally able to pass through material costs to its customers and believes that in the event of significant price increases by vendors that it could pass the increases to its customers.

Intellectual Property

Arnold currently relies on a deep portfolio of "trade secrets" and internal intellectual property.

Patents

Arnold currently has 1 patent in force in the United States. Arnold also has one pending patent application in the United States and corresponding pending applications in Europe and Japan.

Trademarks

Arnold currently has 86 trademarks, 12 of which are in the U.S. The most notable trademarked items are the following: "RECOMA", "PLASTIFORM", "FLEXMAG" & "ARNOLD". Application dates for various trademarks date back to as early as 1960.

Regulatory Environment

Arnold's domestic manufacturing and assembly operations and its facilities are subject to evolving Federal, state and local environmental and occupational health and safety laws and regulations. These include laws and regulations governing air emissions, wastewater discharge and the storage and handling of chemicals and hazardous substances. Arnold's foreign manufacturing and assembly operations are also subject to local environmental and occupational health and safety laws and regulations. Management believes that Arnold is in compliance, in all material respects, with applicable environmental and occupational health and safety laws and regulations. New requirements, more stringent application of existing requirements, or discovery of previously unknown environmental conditions could result in material environmental expenditures in the future.

Arnold is a major producer of both Samarium Cobalt permanent magnets under its brand name RECOMA® and Alnico (in both cast and sintered forms). Both materials from Arnold meet the current Berry Amendment or Defense Federal

Acquisition Regulations Systems (DFARS) requirements per clause 252.225.7014 further described under 10 U.S.C. 2533b. This provision covers the protection of strategic materials critical to national security. These magnet types are considered "specialty metals" under these regulations.

Employees

Arnold is led by a capable management team of industry veterans that possess a balanced combination of industry experience and operational expertise. Arnold employed approximately 702 hourly and salaried employees located throughout North America, Europe and Asia at December 31, 2018. Arnold's employees are compensated at levels commensurate with industry standards, based on their respective position and job grade.

Arnold's workforce is non-union except for approximately 71 hourly employees at its Marengo, Illinois facilities, which are represented by the International Association of Machinists (IAM). Arnold enjoys good labor relations with its employees and union and has a three year contract in place with the IAM, which will expire in June 2019.

Clean Earth

Overview

Headquartered in Hatboro, Pennsylvania, Clean Earth provides environmental services for a variety of contaminated materials including soils, dredged material, and hazardous waste. Clean Earth analyzes, treats, documents and recycles waste streams generated in multiple end markets such as utilities, infrastructure, chemicals, aerospace and defense, non-public/ private development, medical, industrial and dredging. Treatment includes thermal desorption, dredged material stabilization, bioremediation, physical treatment/screening and chemical fixation. Before the company accepts contaminated materials, it identifies a third party "beneficial reuse" site such as infrastructure projects, commercial redevelopment or daily landfill cover and capping where the materials will be sent after they are treated. Clean Earth operates 29 permitted facilities in the Eastern United States. Revenues from the environmental processing facilities are generally recognized at the time of receipt.

History of Clean Earth

Clean Earth was founded in 1990 with the establishment of a contaminated material treatment facility in New Castle, Delaware focused on processing soils. The treatment of contaminated materials has diversified significantly over the years as Clean Earth now also processes hazardous waste, dredged material, coal ash and hazardous wastewater. Clean Earth has been able to grow consistently via both organic initiatives and acquisition. In 1997, the Company opened Clean Earth of Carteret, which was the first "fixed-based" bioremediation facility permitted in the State of New Jersey. In 1998, Clean Earth started offering hazardous waste treatment after acquiring S&W Waste, now Clean Earth of North Jersey, a fully permitted commercial Resource Conservation and Recovery Act ("RCRA") Part B Treatment, Storage & Disposal Facility ("TSDF"). That same year, Clean Earth also expanded services into the treatment of dredged material through the acquisition of Consolidated Technologies Inc. (now Clean Earth Dredging Technologies). Today, Clean Earth is one of the largest providers of contaminated materials and hazardous waste treatment in the East. In addition to diversifying the number of contaminated materials it handles, Clean Earth has also significantly expanded its geography. The Company now operates permitted facilities from New Hampshire to Florida, and with its recent acquisitions, Clean Earth has expanded its footprint of permitted facilities to Kentucky, West Virginia, Alabama, California, Virginia, Georgia, New York, Michigan, New Hampshire and North Carolina. We purchased a majority interest in Clean Earth on August 26, 2014.

Industry

Overview

The U.S. environmental services industry is highly fragmented, with Clean Earth most closely correlated with the contaminated materials treatment and hazardous waste management segments of the industry. Historically, growth in these sectors has been primarily driven by increasing regulations and growing volume of waste generated and is now positively affected by increases in waste disposal costs and resulting landfill avoidance trends. Other trends driving growth include increasing concern in corporate America regarding environmental liabilities and a push by companies to outsource a larger amount of environmental services to a smaller number of service providers due to increasing compliance costs.

Contaminated Materials
Contamination of soils and other materials is prevalent and often caused by the introduction of chemicals, petroleum hydrocarbons, solvents, pesticides, lead and other heavy metals into the earth. These contaminants are common in areas of industrialization and severely impact the environment as a result of inadequate containment or improper disposal. As a result of their prevalence and impact, these contaminates are subject to ever more stringent environmental regulations which now govern the handling, treatment, and disposal of these contaminants. As a result, when soil or other materials are removed from a site, they must be tested. The strong likelihood that materials will contain some level of contamination generates consistent demand for treatment and beneficial reuse solutions.
Contaminated materials are routinely associated with infrastructure, commercial development, and other excavation projects, heavy industrial activity, spill clean-up or environmental remediation projects, locations with former manufactured gas plants (“MGP”), underground storage tanks (“UST”) or aboveground storage tanks, and a wide variety of increasingly regulated waste streams.
Dredge Market
Dredging is the act of removing sediment from the bottom of waterways, both inland (rivers and canals) and ocean (floors, harbors, channels, etc.), and is performed for both navigational and environmental purposes. Like soil, most dredged material largely contains some level of contamination, particularly in current or historically industrially active areas. Accordingly, the Environmental Protection Agency (the "EPA") has established regulations that govern the disposal methods of dredged material, including the Marine Protection, Research and Sanctuaries Act (“MPRSA”), and the Federal Water Pollution Control Act, or the Clean Water Act.
The treatment and beneficial reuse of dredged material began in 1995, when various government entities in New Jersey and New York permitted a unique project to demonstrate the feasibility of using treated and processed dredged material to reclaim a former landfill and repurpose it for a new building project. Regulations require contaminated dredge materials to be taken upland for treatment or disposal in accordance with Title 33 as administered by the United States Army Corps of Engineers and the EPA. Once treated, dredged material is used for structural fill and development purposes.

Hazardous Waste
The hazardous waste services industry encompasses the generation, collection, treatment, and ultimate disposal of wastes classified as hazardous by RCRA. RCRA, the primary law governing the disposal of solid and hazardous waste, was passed by Congress in 1976 to address increasing problems associated with growing volumes of municipal and industrial waste.
In addition to hazardous waste generated by industrial activity, improper handling and disposal of hazardous materials and waste, accidents, spills, and leaks have resulted in the contamination of land, water and air in the U.S. The U.S. generated 34 million tons of hazardous waste in 2015, according to the EPA. These wastes come primarily from three sources, routine business, increasingly expanding waste regulations and Superfund sites.

Increasingly complex regulations have expanded the scope of what is considered hazardous waste from non-traditional sources, such as retailers and households. For instance, environmental regulations require large quantity generators such as big box retailers to dispose of all returned or damaged products that include pesticides, aerosols, fertilizers and cleaners through a permitted hazardous waste disposal program. Similarly, household products, such as paints, oils, batteries, fluorescent light bulbs and pesticides, which contain potentially hazardous ingredients, require special treatment and disposal.
Hazardous waste is also generated during the routine course of business and manufacturing, requiring the same care of handling by a specialized treatment facility. The generation of hazardous waste is common throughout the chemicals and petrochemical, steel, general manufacturing, government, aerospace and public utilities industries. Within the U.S., the Northeast region is one of the most densely concentrated areas for generators of hazardous waste.
In order to address these environmental hazards, the EPA established a program known as the Superfund, which allows the EPA to clean up such sites, or to compel responsible parties to perform clean-ups or reimburse the EPA for its clean-up expenses. This includes regulatory requirements that raise both the monetary and reputational costs for non-compliance. The Superfund program has identified tens of thousands of sites that require treatment over its more

than 20-year history.

Growing and Increasingly Regulated Waste Streams

Federal, state and local regulators have continuously expanded legal guidelines to include additional waste streams, becoming increasingly vigilant to ensure the proper treatment and disposal of an ever-increasing number of contaminants. Two of the most prevalent increasingly regulated waste streams include hazardous waste water from natural gas drilling and coal ash, a byproduct of fossil fuel power plants.

Services

Clean Earth provides services to a variety of customers handling numerous unique sites that often require a range of custom solutions based upon project-specific factors. Clean Earth provides its core material treatment capabilities and complementary services. In addition to its treatment offerings, Clean Earth also provides turnkey services that include proper identification of waste services, management of all transportation and logistics, appropriate testing and analytics, manifesting/documentation and environmentally compliant placement of treated materials at backend locations.

Site Planning and Sampling

Before work commences, Clean Earth has the ability to conduct waste characterization services consisting of field sampling, contaminated material collection and laboratory analysis. Properly identifying waste contaminants upfront can be important, as misclassification leads to mishandling of the waste, which can be costly in terms of fines, penalties, reduced recycling rates (increased disposal fees), and lost project time. Results are analyzed to assess time, cost and logistics, which give Clean Earth the ability to provide customers with a disposal recommendation and a cost-effective solution.

Testing and Analytics

Clean Earth utilizes internal and external, fully-certified and approved laboratories that perform field sampling and contaminated material collection, laboratory analysis, site sampling plans and sampling location diagrams. Laboratory testing is customizable, and Clean Earth determines appropriate testing methods to assess the quantity and type of contaminant in the material. Clean Earth analyzes the results to determine an appropriate treatment and beneficial reuse plan specific to each material. Clean Earth maintains a state-certified hazardous waste laboratory in the New York metropolitan area at its Kearny, New Jersey facility.

Transportation and Logistics

Clean Earth operates an asset-light business model in which it arranges for transportation of the materials on behalf of its customers via pre-qualified independent hauling companies for the vast majority of its volume. Due to Clean Earth's ability to provide year-round work for transportation companies and its consistent payment practices, it has developed very strong and long-standing relationships with its vendors, providing a large pool of available trucks to complete projects efficiently.

Manifesting and Documentation

Clean Earth provides uniform manifests for customer projects that can be used throughout its network of facilities. These manifests provide tracking of all material moved from a customer site to its facilities and eventually to the final beneficial use site. Furthermore, these documents are maintained and submitted to regulatory agencies such as the EPA for their review.

Treatment

Clean Earth offers several processes to treat, stabilize and/or decharacterize waste material and subsequently avoid costly landfill disposal and meet strict regulatory and site-specific requirements before being beneficially reused.

- Thermal Desorption

  Primarily used to treat soil with high levels of volatile contaminants by heating it in a rotating dryer to volatilize and then subsequently destroy the contaminants

  The treated material then enters a soil conditioner (called a pugmill), where it is cooled and rehydrated

  Finally, the cooled soil is stockpiled, sampled, and tested by an independent certified laboratory to ensure effective treatment and fulfillment of reuse standards

  This treatment method is primarily used for soils that contain high levels of contaminants, such as soil from manufactured gas plant sites

- Stabilization of Dredged Material

  Dredged sediments are screened to remove large objects and excess water

The remaining material is fed through a conveyor belt to a pugmill mixing system, where proprietary reagent admixtures are introduced
The resulting material is valued for its geotechnical properties and is beneficially reused as fill material
• Bioremediation
Used to treat soil that is contaminated with petroleum hydrocarbons
Involves inoculating the contaminated material with engineered bacteria and nutrients to break down the contaminants
The bacteria consume and process the nutrients and the hydrocarbons thereby remediating the contaminants
• Chemical Fixation
Used for light to medium hydrocarbon and/or contaminated material impacted by light or heavy metals
Soil is screened, and paired with chemical additives to formulate a chemically stable and geotechnically desirable material
• Physical Treatment/Screening
Special sizing and segregation processes remove unsuitable materials from inbound materials to meet site-specific geotechnical specifications
The segregated material, often rock, can be mixed with other material for reuse or crushed to create aggregate material for resale

Placement at Backend Sites

Clean Earth maintains a vast network of permitted, active backend locations owned by third parties that utilize its treated materials to achieve site specifications and/or meet regulatory obligations. Clean Earth operates a system in which before accepting any material it identifies which specific backend site will accept it and how much it will cost to treat, transport, and place. Its beneficial reuse solutions serve as an alternative to permitted landfill disposal and incineration. In order to ensure sufficient capacity for any future project, Clean Earth continuously seeks to add backend sites to its network.

Business Strategies

Growth in Clean Earth’s business is primarily focused in five areas:

Continued participation in large and growing end markets

Within the U.S. environmental services market, Clean Earth primarily operates within the remediation and hazardous waste management segments. Growth in the industry will be driven by numerous secular trends, including an increasing national awareness and dedication to environmental stewardship, regulatory guidelines for a growing number of contaminated waste streams, and increasing prevalence of and preference for cost-effective landfill avoidance and recycling strategies. As a result of these market trends, generators or those responsible for contaminated waste streams will likely seek to utilize service providers like Clean Earth that can offer environmentally compliant and cost-effective solutions for their treatment and disposal needs.

Contaminated Materials

Clean Earth’s operations are diversified across a variety of stable end markets focused primarily in the utilities, infrastructure and industrial industries.

Dredged Material

Clean Earth has maintained a strong position in the New York and New Jersey harbors for its dredged material management and recycling services. Demand for Clean Earth’s services has grown such that it constructed a second dredge processing facility in 2009. Outside of the New York and New Jersey harbors, increased demand for maintenance projects is expected to be driven largely by the increasing size of heavy shipping vessels and expansion of the Panama Canal. As waterways are deepened, sediment accumulates in greater volume, which must be regularly removed to maintain the new depth.

Hazardous Waste

Clean Earth maintains unique hazardous waste operations in an active region of the United States. There is a significant number of hazardous waste generators in the U.S. that are located in New York and New Jersey and Clean Earth operates one of the two commercial RCRA Part B permitted TSDFs in the New York metro area. Clean Earth is currently

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able to accept hazardous liquids, solids and gasses, as well as a variety of other specialty waste classes, including lab-packs, electronic waste, universal waste, wastewater, household hazardous waste, medical waste, used oils and antifreeze. Clean Earth can also accept nonhazardous waste at this facility. In addition to its hazardous waste facility in New Jersey, Clean Earth also operates RCRA Part B facilities in Calvert City, KY, Morgantown, WV, Glencoe, AL, Doraville, GA and Charlotte, NC.

Increasing share in existing markets

Clean Earth has historically increased the volume of materials processed at its existing facilities by expanding the scope of its existing permits and developing new treatment and processing techniques. The permitting expertise of its environmental, health, and safety organization allows Clean Earth to be proactive in seeking additional waste streams and adaptable to changing contaminants found in the materials it manages, as well as in newly regulated materials.

Numerous dynamics have made the market increasingly beneficial for Clean Earth in its core markets. These dynamics include stricter regulations, increasing levels of enforcement and a more discerning customer base.

Accelerating participation in increasingly regulated end markets

Within its current footprint, there are opportunities for Clean Earth to continue to expand the scope of its service offering by adding additional specialty waste streams.

Continued tuck-in acquisition growth

Since 2011, Clean Earth has expanded its footprint and technical capabilities by launching operations in Florida (acquired), the Marcellus Shale (greenfield), Georgia (acquired), Kentucky (acquired), West Virginia (acquired), Greater Washington, D.C. region (acquired and repurposed) Connecticut (acquired), Alabama (acquired), California (acquired), Virginia (acquired), New Hampshire (acquired), upstate New York (acquired), Pennsylvania (acquired), and North Carolina (acquired) and Michigan (acquired).

The market for waste management services is highly fragmented, with many companies operating a single facility. Accordingly, there are many tuck-in acquisition opportunities in Clean Earth's marketplace that would enable it to continue growing in existing and adjacent markets, as well as in new geographies.

Platform expansion opportunities

While Clean Earth has historically remained focused on its core markets, many opportunities exist to diversify and augment its environmental service offering using Clean Earth as a platform. Clean Earth can acquire select competitors and industrial services companies, as well as pursue vertical integration prospects and new treatment technologies.

Customers

Clean Earth serves approximately 1,700 customers at more than 6,300 discrete sites. The Company maintains strong relationships with customers at various levels of the decision and supply chain, including public and private corporations and property owners, as well as environmental consultants, brokers, construction firms, municipalities, and regulatory agencies, among others.

In 2018, 2017 and 2016, the top 10 customers accounted for approximately 27%, 29% and 27% of net sales, respectively. While Clean Earth works with certain customers that have recurring needs for disposal and recycling solutions, its revenue per customer changes frequently.

Seasonality

Clean Earth typically has lower earnings in the winter months due to limits on outdoor construction due to colder weather and dredging due to environmental restrictions in certain waterways in the Northeastern United States.

Sales and Marketing

Clean Earth's team is comprised of sales and marketing professionals that are primarily focused on direct selling to customers. Clean Earth is focused on servicing customers at various levels of the decision and supply chain, including waste generators, environmental service companies, consultants, construction and engineering firms, commercial developers, municipalities and government-sponsored organizations, and regulatory agencies, among others. Clean Earth has spent years developing direct relationships with its clients, many of whom routinely generate large volumes of waste and demand treatment and disposal solutions at various sites and locations.

Hazardous waste treatment services are managed both directly with generators and through broker networks.

The large dredging contractors manage the vast majority of the dredging activity. Clean Earth has built relationships with these contractors to ensure it is well-positioned to serve as many of the large or small dredging projects in the New York/New Jersey harbor and surrounding waterways, as possible.

Competition

Competitive Landscape

The environmental services market is highly fragmented with numerous participants. However, a majority of these companies specialize in a narrower scope of services or treatment capabilities. Industry competitors relevant to Clean Earth's served markets range from large public companies to small, single-service participants. Competition primarily includes processors of contaminated soils, dredging companies (to a limited extent), waste treatment providers and waste management companies. In Clean Earth's core markets, competition tends to be primarily comprised of regional services providers or single-service companies with limited scale. Given these dynamics, we believe the industry will likely favor players such as Clean Earth that have large scale and management teams with many years of experience and extensive familiarity with the regulatory landscape.

Barriers to Entry

- Permits - Clean Earth maintains an extensive portfolio of regulatory permits, including approximately 220 active permits and 200 permit modifications. Each facility maintains various local, state, and federal authorizations for the acceptance, treatment, and beneficial reuse of a wide variety of hazardous and nonhazardous materials, as well as all necessary air and water discharge permits required for operation. These permits are extremely difficult to obtain due to the complex navigation of multiple layers of regulation, lengthy and costly public review periods and typical public NIMBY opposition. Clean Earth maintains a large team of environmental, health and safety experts that have developed trusted relationships and credibility with local, state and federal regulatory agencies over the last 25 years.
- Extensive Network - Clean Earth's extensive network of permitted facilities is strategically located near major waste generation centers with an abundance of regulations governing waste treatment and disposal. Given transportation costs, the proximity of Clean Earth's facilities to key markets and convenient access to rail, barge, and trucking transportation are significant competitive advantages that drive profitability. Furthermore, its maintenance of multiple backend beneficial reuse sites provides flexibility to direct volume to the most appropriate facilities based on available processing and placement capacity.

Regulatory Environment

Clean Earth's facility operations are subject to various local, state, and federal authorizations for the acceptance, treatment, and beneficial reuse of a wide variety of hazardous and nonhazardous materials, as well as all necessary air and water discharge permits required for operation. These permits are extremely difficult to obtain due to the complex navigation of multiple layers of regulation, lengthy and costly public review periods, and typical public NIMBY opposition. Clean Earth maintains a large team of environmental, health, and safety experts that have developed trusted relationships and credibility with local, state, and federal regulatory agencies over the last 25 years.

Management believes that Clean Earth is in compliance, in all material respects, with applicable environmental and occupational health and safety laws and regulations.

Employees

Clean Earth is led by a capable management team of industry veterans that possess a balanced combination of industry experience and operational expertise. The current senior management team has over 150 years of cumulative experience with an average tenure of approximately 10 years at Clean Earth. Current management has implemented numerous operational, strategic, and financial initiatives over the past several years. In addition to the senior management team, there are operational managers that hold significant responsibilities across the business and work closely with management on a daily basis.

Clean Earth employed approximately 624 hourly and salaried employees located throughout the United States at December 31, 2018. Clean Earth's employees are compensated at levels commensurate with industry standards, based on their respective position and job grade.

Clean Earth's workforce is non-union except for approximately 15 hourly employees at its dredge facilities, who are represented by International Union of Operating Engineers Local No. 825 (IUOE Local 825). Clean Earth enjoys good labor relations with its employees and union and has a three year contract in place with the IUOE Local 825, which will expire in July 2019.

Foam Fabricators

Overview

Foam Fabricators, headquartered in Scottsdale, Arizona, is a designer and manufacturer of custom molded protective foam solutions and OEM components made from expanded polystyrene (EPS) and other expanded polymers. Foam Fabricators provides products to a variety of end-markets, including appliances and electronics, pharmaceuticals, health and wellness, automotive, building products and others. Foam Fabricators' molded foam solutions offer shock and vibration protection, surface protection, temperature control, resistance to water absorption and vapor transmission and other protective properties critical for shipping small, delicate items, heavy equipment or temperature-sensitive goods. Foam Fabricators operates 13 molding and fabricating facilities across North America, creating a geographic footprint of strategically located manufacturing plants to efficiently serve national customer accounts.

History of Foam Fabricators

Foam Fabricators was founded in 1957 and began its operations as a single plant in St. Louis, MO, dedicated to the manufacture of rigid foam plastics. In 1959, Foam Fabricators expanded its product range to include ice chests, packaging and swim toys. In the 1970s and 1980s, Foam Fabricators expanded its geographic footprint, adding six more shape molding plants. In 1983, Texstyrene Plastics, a publicly-traded competitor and manufacturer of polystyrene products, acquired Foam Fabricators. Shortly thereafter, Foam Fabricators added three new plants to its operation.

In 1989, Texstyrene split off its various business divisions and sold Foam Fabricators to the then current management team of Texstyrene. Through the 1990s and early 2000s, Foam Fabricators grew partially through acquisitions purchasing four competitors. Foam Fabricators also opened two greenfield plants in Mexico to better serve their multinational manufacturing customers. Today, Foam Fabricators operates out of its corporate headquarters in Scottsdale, Arizona and 13 manufacturing facilities across North America.

We purchased Foam Fabricators on February 15, 2018.

Industry

Foam Fabricators competes in the broadly defined global protective packaging market which was valued at $23.5 billion in 2017. On the basis of product type, this market is segmented into rigid protective, flexible protective, and foam protective applications. Foam Fabricators primarily competes in the North American foam protective packaging market which was valued at $6.2 billion in 2017 and includes expanded polyurethane foams, loose fills, foam in place polyurethane, and molded foams products. Producers of molded foam products generally fall into two categories: block molders and shape molders. Block molders manufacture large blocks of EPS foam that are typically used as insulation in building products such as walls, roofs and floors and are closely tied to the construction market. Shape molders, such as Foam Fabricators, manufacture customized molded foam solutions for protective packaging applications, insulated shipping containers and internal parts and components for OEMs. Products made of EPS foam have broad applications across various end markets due to a unique combination of performance characteristics. The superior cushioning and barrier properties paired with insulating and hydrophobic properties make it an ideal material for protective packaging of heavy or valuable goods as well as insulated shipping containers for temperature and moisture sensitive products.

Products and Services

Foam Fabricators designs and manufactures a broad array of custom molded protective foam solutions and OEM components serving various end markets. Foam Fabricators' molded foam products are predominately made of expandable polystyrene (EPS), which is a rigid, closed-cell foam. EPS is comprised of polystyrene, a thermoplastic derived from the styrene monomer and benzene, and an added expansion agent, usually pentane. The final shape mold finished product is 98% air and is created in a low-pressure press which heats EPS beads that expand and fill a customer-specific mold. Foam Fabricators also uses other moldable materials including expandable polypropylene (EPP) and expandable polyethylene (EPE) depending on project and customer requirements. EPS foam is an environmentally friendly material that is fully recyclable, uses less energy to produce, generates fewer emissions and has less environmental impact than most competitive material options.

Foam Fabricators' custom-engineered molded foam products fall into four major categories: protective packaging, insulated shipping containers, OEM parts and componentry and fabricated foam. These products are used across a variety of end markets including consumer electronics, appliances, temperature-sensitive pharmaceuticals and food, automotive, home and office furnishings and building products among others.

Protective Packaging - Foam Fabricators creates custom molded corner pads, edge pads, “clear-view” packages and other protective foam packaging solutions for durable goods such as large and counter-top appliances, furniture, consumer electronics and military applications. Molded foam is an ideal protective packaging choice because it can be shaped into almost any form at tight tolerances and provides lightweight yet strong cushioning during product shipment.

Insulated Shipping Containers - Transporting healthcare and pharmaceutical products requires complex logistical processes, specific equipment, storage facilities and special handling procedures to maintain product integrity. These requirements make EPS foam an ideal material to be used in insulated shipping containers due to its thermal insulation, water impermeability and shock absorbing properties. Similar to its uses in the healthcare industry, Foam Fabricators manufactures insulated shipping containers for online grocers and meal delivery services to transport prepared meals and perishable food and beverage products that must be shipped in a temperature-controlled environment.

OEM Parts and Componentry - Foam Fabricators manufactures a variety of internal components used by OEMs as replacements for injection molded plastic or sheet metal parts across various end-markets. Compared to traditional plastic parts, foam offers vibration protection, insulation benefits, lower tooling costs and shorter lead times. Foam Fabricators offers thin-wall molded air ducts and other internal components for household appliances such as refrigerators and air conditioners. In the automotive sector, Foam Fabricators manufactures foam door panels, trunk liners, bumper components, instrument panels, center consoles, side pillars, seat components and head rests. Foam is increasingly being used in new vehicle designs because it offers equivalent impact strength and toughness to traditional chassis materials with 10 to 40% less weight. Foam Fabricators also makes products used in personal watercraft floatation and seating parts as well as recreational vehicle roof panels and core laminates that go underneath aluminum outer skins. Lastly, Foam Fabricators produces building products for the construction market including insulated concrete forms. Insulated concrete forms are hollow sections of molded foam that construction crews stack into the shape of the walls of a building and fill with concrete to create the permanent structure.

Fabricated Foam - Foam Fabricators also uses a variety of methods including die cutting, saw cutting, hot wire slicing and pressure cutting to create fabricated foam shapes as opposed to molded shapes. These products do not require tooling or dies so there is less upfront costs for the customer and are usually best suited for medium to low volume projects. Fabricated foam products represent a small portion of Foam Fabricators overall net sales.

Competitive Strengths

National Scale and Proximity to Customers - Foam Fabricators maintains a national footprint of 13 manufacturing locations across North America. Facilities are strategically located near customers’ production locations enabling Foam Fabricators to be one of only a few foam molders capable of serving large national accounts. Due to foam’s high volume-to-weight ratio, foam manufacturers generally confine product shipments to a 300-mile radius in which shipping costs are economically viable. Thus, Foam Fabricators is uniquely positioned to provide multi-facility support to its largest customers who often have multiple manufacturing or distribution locations.

Engineering and Design Capabilities - Foam Fabricators has five coordinated design and testing centers with experienced packaging and mechanical engineers that work closely with customers to support packaging design needs. Engineering services include optimizing molds to meet customer needs and address complex design requirements, identifying pre-manufacturing challenges, solving post-manufacturing issues, improving packaging processes and laboratory testing final designs. Early customer involvement and collaboration to develop packaging solutions has resulted in increased project win rates and better visibility into product development pipelines.

Barriers to Entry

- High Customer Switching Costs - The operational risk and disruption associated with switching existing molds to operate on a competitor’s press makes shifting or splitting business between different shape molders difficult and infrequent. In general, most customers pay for their own molds, which are custom built for a specific molders’ presses.

The financial cost of retooling is estimated to be $5,000 - $25,000 per mold, making it cost prohibitive to change molders on existing projects.

- Favorable Cost-to-value Proposition - The high cost of failure, relatively low proportionate cost of foam to the final product being protected, and sometimes lengthy testing and qualification process represent significant barriers to customers changing solution providers or packaging material choices.
- Equipment and Processing Infrastructure - Foam Fabricators' existing base of production equipment has a significant estimated replacement cost. Management estimates the cost of opening a new shape molding

facility at approximately $5 million, excluding real estate, and must meet stringent environmental standards. A new entrant could require as much as 1-2 years of lead time to match the process performance requirements, customization of equipment and material formulations necessary to effectively compete in the molded foam industry. Moreover, Foam Fabricators has a strong preventive maintenance program and in-house equipment division that is responsible for repairing and rebuilding presses. This allows Foam Fabricators to significantly extend the average useful life of its machinery and reduce the ongoing capital investment requirements, creating an advantage over competitors.

Business Strategies

Defend Market Position - As a leading supplier of custom molded foam solutions, management believes Foam Fabricators enjoys strong brand awareness and a reputation for superior quality and service in the industry. In a market characterized by fragmented competition, Foam Fabricators will continue to focus on providing a best in class suite of products and capabilities.

Remain Committed to Customers - Functional and error-free products are key considerations for its customers and Foam Fabricators has maintained a disciplined approach to ensure its products meet the highest standard of quality. Utilizing a balanced scorecard, Foam Fabricators has achieved a 99.0% 1st piece acceptance rate, less than 2 complaints per 1000 shipments and a less than 0.05% rejection rate. As a result of this system of checks, Foam Fabricators has had little customer attrition.

Pursue Selective Acquisitions - Foam Fabricators views acquisitions as a potentially attractive means to expand its national footprint or broaden its current product offering. Management will continue to seek tuck-in acquisitions of regional foam molders and other packaging suppliers where sales and operational efficiencies can be realized, or to diversify into packaging products other than molded foam.

Customers

Foam Fabricators maintains a broad base of over 300 customers across a wide variety of end-markets, including appliances, pharmaceuticals, food and beverage, consumer electronics, automotive, furniture, building products and logistics. Foam Fabricators' products are sold primarily direct to the customer or through third-party packaging distributors. Foam Fabricators has maintained long-standing relationships with its top customers, often averaging ten or more years. Foam Fabricators three largest customers comprised approximately 40%, 37%, 35% of sales in the year ended December 31, 2018, 2017 and 2016, respectively.

Foam Fabricators often maintains resin cost pass-through provisions with its contracted customers, allowing them to pass-through material resin price changes - resin constitutes their primary raw material cost.

The following table sets forth Foam Fabricator's customer breakdown by sector for the fiscal years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Appliance	37.8%	37.6%	36.2%
Insulated shipping containers	33.9%	33.9%	32.9%
Automotive	4.8 %	6.0 %	6.5 %
Protective packaging	7.8 %	7.9 %	9.1 %
Office furniture	3.8 %	3.9 %	3.5 %
Construction	2.9 %	3.0 %	3.3 %
Other	9.0 %	7.7 %	8.5 %
	100 %	100 %	100 %

Sales and Marketing

Foam Fabricators sales and marketing efforts are decentralized and generally carried out by one or two full-time salespeople who are typically also engineers at each of the manufacturing facilities. The dedicated sales team report to regional managers and vice presidents, who are collectively responsible for driving overall sales activities in their respective markets. Key customer accounts are directly managed by senior management, who coordinate efforts between manufacturing facilities to fulfill orders.

Foam Fabricators spends less than 1% of net sales each year on traditional marketing, which consists of targeted brochure advertising and maintaining its website which new customers use to make product inquiries.

Manufacturing and Distribution

Foam Fabricators maintains 13 manufacturing facilities across North America with 11 located in the U.S. and two in Mexico, as well as one non-manufacturing corporate headquarters. Given the high volume, low density nature of foam, Foam Fabricators' manufacturing facilities are strategically located near its largest customers' production locations to minimize freight and logistics costs. Foam Fabricators geographic footprint covers a large portion of the continental U.S. and Mexico. Each plant has a warehouse space for raw materials, supplies and finished goods. Several plants also use third-party warehousing to store excess inventory. Foam Fabricators uses common carriers to deliver finished product and in certain cases, some customers pick up directly from the plants.

Suppliers

The primary raw materials that are used in production are plastic resins, such as expandable polystyrene (EPS), expandable polypropylene (EPP) and expandable polyethylene (EPE). In addition to plastic resins, Foam Fabricators also purchases fabricating material including blocks of EPE and EPP foam, polyethylene and urethane, as well as other packaging materials including corrugate, boxes, paperboard, tape and plastic film. Foam Fabricators purchases its materials from a combination of domestic and foreign suppliers and has maintained strong relationships with key resin suppliers for over 30 years. Adequate amounts of all raw materials have been available in the past, and Foam Fabricators' management believes this will continue in the foreseeable future.

Regulatory Environment

Foam Fabricators' manufacturing operations and facilities are subject to federal, state and local environmental and occupational health and safety laws and regulations. These include laws and regulations governing air emissions, wastewater discharge and the storage and handling of chemicals and hazardous materials. Management believes that Foam Fabricators is in compliance, in all material respects, with applicable environmental and occupational health and safety laws and regulations.

Employees

As of December 31, 2018, Foam Fabricators employed 563 full-time employees in 14 locations. None of Foam Fabricators' U.S.-based employees are subject to collective bargaining agreements. Under Mexican Federal Labor Law, 137 employees at the two Mexican manufacturing facilities are unionized. Foam Fabricators believes its relationship with its employees is good.

Sterno

Overview

The Sterno Group LLC ("Sterno"), headquartered in Corona, California, is the parent company of Sterno Products, LLC ("Sterno Products"), Sterno Home Inc. ("Sterno Home"), and Rimports, LLC ("Rimports"). Sterno operates via three product divisions:

- Sterno Products - Sterno Products offers a broad range of wick and gel chafing fuels, liquid and traditional wax candles, butane stoves and accessories, and catering equipment and lamps for restaurants, hotel and home entertainment uses, selling both Sterno Brand and private label. As the leading supplier of canned heat to foodservice distributors and foodservice group purchasing organizations, Sterno is always pursuing end-user solutions and innovations to strengthen its position in the marketplace.
- Sterno Home - Sterno Home's product offerings include a full line of innovative patented flameless candles, traditional house and garden lighting including path lights, spotlights, bollards, coach and security lights as well as emerging décor categories of illuminated products such as post caps, deck, patio and fence lighting and other popular novelty products including stick lights, string lights, baskets and lanterns. The flameless candles and novelty lighting are powered by solar or battery power and the more traditional outdoor lighting fixtures are driven via solar power or low voltage technologies.
- Rimports - Rimports is a manufacturer and distributor of branded and private label wickless candle products used for home decor and fragrance systems under the ScentSationals, Better Home & Garden, AmbiEscents, Oak & Rye, Estate and Ador brands. The company offers unique lines of wickless candle products including ceramic wax

warmers, scented wax cubes and essential oil and diffusers. Sterno acquired Rimports in February 2018.

History of Sterno

Sterno’s history dates back to 1893 when S. Sternau & Co. began making chafing dishes and coffee percolators in Tenafly, New Jersey. In 1914, S. Sternau & Co. introduced “canned heat” with the launch of its gelled ethanol product under the “Sterno” brand. Since then, the Sternau and Sterno names have been the most well-known names in portable food warming fuel. In 1917, S. Sternau & Co. was renamed The Sterno Corporation. During World War I, Sterno portable stoves were promoted as an essential gift for soldiers going to fight in the trenches of Europe. Sterno stoves heated water and rations, sterilized surgical instruments, and provided light and warmth in bunkers and foxholes. During World War II, Sterno produced ethanol and methanol chafing fuels under contract with the U.S. military. Sterno's production facilities were moved from New Jersey to Texarkana, Texas in the early 1980s. In 2012, Sterno merged with the Candle Lamp Company, LLC ("CandleLamp"). CandleLamp was founded in Riverside, California in 1978, focusing initially on the liquid wax candle market. Over the next several decades, CandleLamp began to supply chafing fuel in addition to lighting products. We purchased Sterno on October 10, 2014.

In January 2016, Sterno expanded their product offering with the acquisition of Northern International Inc. ("Sterno Home"). Sterno Home was formed in 1997 by its three founding partners who had been in the import and product development business since 1979. The success in the outdoor lighting an innovative use of LED technology evolved into the development of patented flameless candle product line. Sterno Home's flameless candle evolved the battery operated candle market from a functional safety oriented product into an attractive décor piece meant to enhance the beauty of consumer’s homes.

In February 2018, Sterno acquired Rimports. Rimports is a manufacturer and distributor of branded and private label wickless candle products used for home decor and fragrance systems under the ScentSationals, Better Home & Garden, AmbiEscents, Oak & Rye, Estate and Ador brands. Rimports offers unique lines of wickless candle products including ceramic wax warmers, scented wax cubes and essential oil and diffusers.

Today, Sterno operates out of its corporate headquarters in Corona California, two manufacturing facilities in Texarkana, Texas and Memphis, Tennessee, and the Rimports facility in Provo, Utah.

Industry

Sterno Products competes in the broadly defined U.S. foodservice industry where restaurant, catering and hospitality sales account for approximately 67% of the market with the remainder comprised of the travel and leisure, education and healthcare related sales. The Sterno Products product offerings focus on safe, portable fire solutions for cooking and warming, as well as tabletop lighting décor.

Sterno Home competes in the outdoor lighting and home decor industry. Sterno Home's sales are concentrated in the United States and Canada, with a small percentage of sales coming through global retailers with locations in Japan, Taiwan, the United Kingdom and Australia. Management believes that a rise in demand from high-income households and businesses will bolster growth, with consumers spending more money on the cocooning trend and specifically on beautifying their indoor and outdoor home, changing out trendy accent items more frequently and investing in more spacious and comfortable outdoor spaces with many equivalent amenities of their indoor spaces.

Rimports operates in the broad U.S. home decor space (retail) which is heavily correlated to general consumer spending. Flameless and reusable wax products have seen increased adoption by younger consumers who prioritize economical and environmentally friendly products. Within the home decor space, Rimports competes in the U.S. candle space and the U.S. home fragrance space.

Products and Services

Sterno is a “full-line” supplier offering a broad array of portable chafing fuels, table lighting, outdoor lighting products, wickless candles and fragrance products with approximately 4000 SKUs serving the foodservice and retail markets. Sterno originally focused on chafing fuel (“canned heat”) products and later expanded its offerings to include table ambiance products such as liquid wax, wax candles and votive lamp, as well as outdoor lighting with the acquisition of Sterno Home in 2016, and wax cubes and warmer products through its acquisition of Rimports. Sterno’s products fall into six major categories: canned heat, catering equipment and butane products, table lighting, flameless candles and outdoor lighting, wickless candle and fragrance products.

Canned Heat - The canned heat product line is composed of various chafing fuels packaged in small, portable cans. The portable warming (canned heat) line is composed of wick-based and gel-based chafing fuels packaged in steel cans. These products are used by foodservice professionals in a variety of food serving and holding applications and are designed to keep food products at an optimal food-safe serving temperature of 140-165 Fahrenheit. The canned

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heat product line is composed of two subcategories: wick chafing fuel and gel chafing fuel. The subcategories are distinguished based on the type of chafing fuel being used; the four primary chafing fuels are diethylene glycol (“DEG”), propylene glycol, ethanol and methanol. Each fuel contains unique characteristics and properties that allow the Company to offer a broad array of configurations to suit varying user requirements.

Wick Chafing Fuel

The wick chafing fuel line (“Wick”) is composed of either DEG or propylene glycol chafing fuel. DEG and propylene glycol chafing fuels with advance wick technology have higher heat output than alternatives such as ethanol and methanol. The liquid Wick products feature a variety of wick types and burn times to meet the specific needs of the user. Wick fuels are clean burning, biodegradable, nonflammable if spilled (will not ignite without a wick) and the can stays cool to the touch when lit.

Gel Chafing Fuel

The gel chafing fuel line (“Gel”) is composed of either gelled ethanol or gelled methanol chafing fuel. Ethanol chafing fuel has a higher heat output than methanol fuel; both ethanol and methanol fuels have lower heat output than some DEG and propylene glycol products. The Gel product line tends to have shorter burn times than the Wick product.

For an Environmentally preferred chafing fuel, the Company offers a patented line of “Green” chafing fuels featuring USDA Certified Biobased Product formulas that are also endorsed by the Green Restaurant Association. The “Green Heat” and “Green Wick” products perform similar to the Wick and Gel chafing fuels, but are made from renewable resources that are biodegradable and more environmentally friendly.

Catering Equipment - Catering equipment products are designed to provide a complete commercial catering solution whether indoor or outdoor. Products include chafing dish frames and lids, wind guards and buffet sets.

Butane - Sterno produces a full line of professional quality portable butane stoves, ideal for action stations, made-to-order omelet lines, tableside and off-site cooking, outdoor events and more. Products also include select butane accessories for special culinary applications such as the culinary torch. Sterno butane fuel comes with an additional safety feature called Countersink Release Vent (CRV) Technology.

Table Lighting - Sterno sells a variety of items designed to enhance lighting and ambiance at meal settings which are critical to a customer’s experience. Products include liquid wax, traditional hard wax and flameless electronic candles, as well as votive lamps, shaded lamps and accent lamps.

Flameless Candles and Outdoor Lighting - Through Sterno Home, Sterno offers a wide selection of lighting for your home, garden, patio and yard with over 1000 SKUS available in our retail markets. Sterno Home first delved into lighting with lighting fixtures for illuminating front and backyard pathways. Sterno Home quickly expanded its line to include other types of home lighting products, most notably bollards, shepherd hook lights and line voltage powered coach lights and street lights. Sterno Home’s 20-year history of providing high quality, low cost consumer-directed lighting has cemented it as a top tier supplier in both the flameless candle and outdoor lighting categories. All of Sterno Home’s products are powered by one of the following:

- Solar - solar panel with rechargeable power source - usually a rechargeable battery
- Battery - battery operated
- Plug-in - plugs directly into a regular wall socket either with 2 or 3 prong plug and with or without included and attached transformer
- Low Voltage - part of a set which includes a stand-alone transformer. Fixtures connect through a stand-alone wire via clip connectors
- Line Voltage - hardwired into a home's electrical circuitry
- Rechargeable - product is recharged when empty usually through a plug in wire and an onboard rechargeable power source

Flameless Candles

The flameless candle product line is made up of various types and sizes of candles with all of them sharing the one main attribute: their glow is powered by an artificial power source, most often battery. This makes them inherently safer than traditional candles as there is no flame or even heat generated to cause any type of accidents. Although pillar type candles are the most common shape, Sterno Home also designs and manufactures votives, tealights, tapers as well as specialty molded candles. Sterno Home was also the first to introduce the timer function to their flameless candle line. Sterno Home’s candles stand out from the competition as they are the only manufacturer that offers the

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patented black wick. Sterno Home also developed its unique algorithm-based light circuit which gives the candle a naturally random flicker and glow.

Landscape Lighting

The landscape lighting category was Sterno Home's first offering. Starting with simple low voltage path lights, Sterno Home quickly expanded its offering to reflect the growing needs of the DIY and home décor consumer. Landscape lighting is lighting that promotes and accentuates elements of a consumer's home, yard or garden so its beauty can be enjoyed both in daytime and nighttime. Another benefit of landscape lighting is added safety as it is easier to navigate around a home at night when it is reasonably well-lit. Landscape lighting was originally most commonly powered through a low voltage setup but as solar technologies have rapidly developed, many of these fixtures can achieve their lighting purposes with only a solar panel as power generation. Consumers with higher and more consistent lighting requirements most often opt for low voltage kits using wire and transformers to light their fixtures. Solar powered fixtures are advantageous for those consumers looking for cheaper and quicker to set up lighting solutions even if it often means lesser lumens and light. Another notable technology has been the development of LED lighting. LED's more efficient power generation technology has allowed for advantageous fixture designs and a higher level of power generation which were not easy or as cost effective to achieve as with legacy lighting technologies such as incandescent or halogen. LEDs also last longer and are generally more robust than older technologies.

Décor Lighting

Décor lighting is Sterno Home's newest category. Décor lighting has similar functions to landscape lighting but is usually less about safety and functionality and more about accenting an area of the outside home with ornamentation of some sort. With a décor piece, the light the piece gives off and the item itself together become elements of beauty in the setting. Because these items are very trend driven, consumers are more apt to switch them out more often therefore increasing repeat purchase potential and other recurrent sales opportunities for Sterno Home. Some of the most common categories of décor lighting are lanterns and baskets and string lighting.

Wickless Candle and Fragrance Products

WaxWarmers and Scented Wax Cubes

The wax and wax warmer line is composed of a large variety of fragrance and warmer design choices for consumers. The wax cubes are long-lasting and consistently release strong fragrance. The consumer likes the product because the scented wax cubes are an impulse item ($2~ price range) and this product makes it easy and quick for the customer to change fragrance. The flameless feature is a plus in that it is very safe. The proprietary formula and world-class fragrances add to the high quality of the domestically-made products. Ongoing research ensures consumer loyalty, superior quality, and well-rounded fragrance programs. The wax warmers are made up of quality materials including wood, metal, ceramic, and glass.

Essential Oils and Diffusers

The 100% Pure Essential Oil lines and brands consists of Peppermint, Lavender, Lemon, Eucalyptus, Sweet Orange, Grapefruit, Tea tree, Cinnamon, etc. Customers are attracted to high quality, 100 percent pure oil products with no additives or fillers. Attractively designed diffusers appeal to consumers in the Aromatherapy Home Fragrance section.

ScentCharms

ScentCharms is Rimports' newest product category. With various interchangeable high-quality fragrance oils and plug-in designs, consumers enjoy a personalized experience. The product is designed to be no spill, no mess, clutter-free, and long-lasting.

Aromatherapy Products

The aromatherapy line consists of room sprays, liquid hand soaps, foaming hand soaps, hand sanitizers, body lotions, and body scrubs, etc. The five unique fragrance combinations - lavender and chamomile, eucalyptus and rosemary, orange and vanilla, lemon and grapefruit, and peppermint and geranium - are made with 100 percent pure essential oils.

Sterno sells into Foodservice, Retail and OEM markets. The following table sets forth Sterno's gross revenue by product for the fiscal years ended December 31, 2018, 2017 and 2016:

Gross sales by product [(1)]	2018	2017	2016
Canned Heat	28 %	46 %	47 %
Wickless Candle Products	27 %	— %	— %
Flameless Candle and Outdoor Lighting	24 %	34 %	35 %
Diffusers and Essential Oils	6 %	— %	— %
Table Lighting	5 %	6 %	6 %
Other	10 %	14 %	12 %
	100%	100%	100%

(1) As a percentage of gross sales, exclusive of sale discounts.

Competitive Strengths

Leading Brand Recognition & Market Share - Sterno Products is the market share leader in the canned chafing fuel market. Management believes Sterno Products enjoys outstanding brand awareness and a reputation for superior quality and performance with distributors, caterers, hotels and other end users. Sterno Home offers a wide variety of products to a cross section of North American retail and our diversity gives us a unique standing in this marketplace. Most of Stern Home's competitors specialize in one aspect of fulfilling the market. They either only sell to a few retailers or only actively develop few or even only one category of product. This exposes them to major financial challenges when they lose that account or when that product is beat out by a competitor or starts to wane in the marketplace. Rimports is the market share leader in fragrance systems, particularly the wickless candle market, and growing in the essential oils and diffusers and plug-in liquid fragrance markets. Rimports offers a large variety of products to retailers in North America, Canada, China, and the United Kingdom.

Low Cost versus Alternatives - Sterno Product's customers are typically caterers, hotels or restaurants who utilize canned chafing fuel to maintain prepared food at a safe and enjoyable serving temperature. The risk of ruining a dining experience and the low proportionate cost of canned chafing fuel relative to the cost of a catered event represent significant barriers to customers switching out of Sterno's canned chafing fuel products. Additionally, management believes that there is no other technology available today that offers the portability, reliability and low cost of the Sterno canned chafing fuel products. Rimports' ultimate consumers seek high quality products in the Home Fragrance section. This high value strength ensures consumer loyalty and satisfaction.

Business Strategies

Defend Leading Market Position - As a leading supplier of canned fuels, flameless candles and outdoor lighting, wickless candles and fragrance products, Sterno's places great value delivering unmatched customer service and product selection. In a market characterized by fragmented categories and competition, Sterno will continue to focus on providing the best in class service to its customers. Sterno Products has been the recipient of numerous vendor awards for its high degree of customer service.

Pursue Selective Acquisitions - Sterno views acquisitions as a potentially attractive means to expand its product offerings in the foodservice and retail channels as well as enter new international markets.

Expand Retail Distribution - Sterno's management believes that there is an opportunity to leverage the iconic nature of the "Sterno Products" brand to expand its retail product offering and to expand distribution into additional retailers.

Create Innovative Products - Having innovative design, marketing, and production teams enables Rimports to expand into new fragrance systems markets, as it has done with Essential Oil Diffusers and ScentCharms (Decorative Liquid plug-in fragrance units). Rimports will continue to focus on providing the best quality products and low prices to retailers and end-users.

Customers and Distribution Channels

Sterno's products are sold primarily through the foodservice and consumer retail channels. Sterno's product distribution network is comprised of long-standing, entrenched relationships with a diversified set of customers. Sterno's top ten customers comprised approximately 79%, 68%, 59% of gross sales in the year ended December 31, 2018, 2017 and 2016, respectively.

Foodservice - The foodservice channel consists of multiple layers of distribution comprised of broadline distributors, equipment and supply dealers and cash and carry dealers. Within the foodservice channel, Sterno’s products are predominantly used in the restaurant, lodging/hospitality and catering markets.

Retail - The retail channel consists of club stores, mass merchants, specialty retailers, grocers and national and regional DIY stores. The Company’s retail products are used in home, camping and emergency applications. The Company’s retail products appeal to a wide variety of consumers, from home entertainers to recreational campers and extreme outdoorsmen. Online retail sales are also an important channel for Sterno Home and Rimports. With an online dynamic, it is also much easier to showcase how Sterno Home’s and Rimport's products look in actual dark use conditions, directly addressing their primary merchandising challenge.

Sterno had approximately $26.5 million and $28.7 million in firm backlog orders at December 31, 2018 and 2017, respectively.

Seasonality

Sterno typically has higher sales in the second and fourth quarter of each year, reflecting the outdoor summer season and the holiday season. Rimports typically has higher sales in the third and fourth quarter of each year, reflecting the holiday season.

Sales and Marketing

Within the foodservice channel, Sterno directly employ sales professionals and utilizes a broad network of independent sales representative firms assigned to differing U.S. territories managed by in-house sales management professionals. The independent sales representatives have long-standing relationships with distributors and end-users and typically represent 10 to 20 of the best non-food product lines alongside the Company’s products. The independent sales representatives are used primarily to manage the day to day order fulfillment and customer relationships. The independent sales representative firms are paid on a commission basis based on customer type and sales territory.

Within the retail channel, Sterno directly employ sales professionals and utilizes a network of independent retail sales broker firms. The independent retail sales brokers are paid on a commission basis based on customer type and sales territory. Sterno maintains direct sales relationships with many key customers. Sterno Home also utilizes a broad network of independent sales representative firms and retail-linked agencies. These agents and firms are managed by Sterno Home's in-house sales management professionals. Rimports’ sales representatives have long-standing relationships with distributors and end-users. The sales team works closely with the marketing, design, and production teams to ensure priority customer service and satisfaction.

Sterno has implemented a multi-faceted marketing plan which includes (i) targeted print advertising; (ii) tradeshows; (iii) increasing online education through the Sterno Products University and the Sterno Home websites; and (iv) social media.

Suppliers

Sterno's product manufacturing is based on a dual strategy of in-house manufacturing and strategic alliances with select vendors. Sterno operates an efficient, low-cost supply chain, sourcing materials and employing contract manufacturers from across the Asia-Pacific region and the U.S.

Sterno Products' primary raw materials are Diethylene glycol, ethanol, liquid paraffin and steel cans for which it receives multiple shipments per month. Sterno Products purchases its materials from a combination of domestic and foreign suppliers.

Sterno Home sources all their entire inventory from China. Sterno Home operates an efficient supply chain with emphasis on quality production and low cost. Sterno Home’s China-based support team in the Yuyao office permits Sterno Home to be more hands on in the factories reporting proactively on potential issues and working to implement practical solutions when required.

Rimports sources raw materials from and outsources manufacturing processes to companies in the U.S. and China. Raw materials include wax, fragrances, and color dye for waxes; essential oils; wood, metal, ceramic, and glass for warmers and diffusers; and packaging supplies. Products are shipped to retailers from outsourced manufacturing warehouses and Rimports’ two Utah warehouses.

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Intellectual Property

Sterno relies upon a combination of trademarks and patents in order to secure and protect its intellectual property rights. Sterno currently owns approximately 230 registered trademarks and 85 patents globally, and has 53 applications for pending.

Regulatory Environment

Sterno is proactive regarding regulatory issues and is in compliance with all relevant regulations. Sterno maintains adequate product liability insurance coverage. Management believes that Sterno is in compliance, in all material respects, with applicable environmental and occupational health and safety laws and regulations.

Employees

As of December 31, 2018 Sterno employed approximately 773 persons in 11 locations. None of Sterno's employees are subject to collective bargaining agreements. We believe that Sterno's relationship with its employees is good.

ITEM 1A. RISK FACTORS

Our business, operations and financial condition are subject to various risks and uncertainties. The following discussion of risk factors should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section and the consolidated financial statements and related notes. In addition to the factors affecting our specific operating segments identified in connection with the descriptions of these segments and the financial results of the operations of these operating segments elsewhere in this report, the most significant factors affecting our operations include the following:

Risks Related to Our Business and Structure

Our future success is dependent on the employees of our Manager and the management teams of our businesses, the loss of any of whom could materially adversely affect our financial condition, business and results of operations.

Our future success depends, to a significant extent, on the continued services of the employees of our Manager, most of whom have worked together for a number of years. While our Manager will have employment agreements with certain of its employees, including our Chief Financial Officer, these employment agreements may not prevent our Manager's employees from leaving or from competing with us in the future. Our Manager does not have an employment agreement with our Chief Executive Officer.

The future success of our businesses also depends on their respective management teams because we operate our businesses on a stand-alone basis, primarily relying on existing management teams for management of their day-to-day operations. Consequently, their operational success, as well as the success of our internal growth strategy, will be dependent on the continued efforts of the management teams of the businesses. We provide such persons with equity incentives in their respective businesses and have employment agreements and/or non-competition agreements with certain persons we have identified as key to their businesses. However, these measures may not prevent the departure of these managers. The loss of services of one or more members of our management team or the management team at one of our businesses could materially adversely affect our financial condition, business and results of operations.

We face risks with respect to the evaluation and management of future platform or add-on acquisitions.

A component of our strategy is to continue to acquire additional platform subsidiaries, as well as add-on businesses for our existing businesses. Generally, because such acquisition targets are held privately, we may experience difficulty in evaluating potential target businesses as the information concerning these businesses is not publicly available. In addition, we and our subsidiary companies may have difficulty effectively managing or integrating acquisitions. We may experience greater than expected costs or difficulties relating to such acquisition, in which case, we might not achieve the anticipated returns from any particular acquisition, which may have a material adverse effect on our financial condition, business and results of operations.

We may not be able to successfully fund future acquisitions of new businesses due to the lack of availability of debt or equity financing at the Company level on acceptable terms, which could impede the implementation of our acquisition strategy and materially adversely impact our financial condition, business and results of operations.

In order to make future acquisitions, we intend to raise capital primarily through debt financing at the Company level, additional equity offerings, the sale of stock or assets of our businesses, and by offering equity in the Trust or our businesses to the sellers of target businesses or by undertaking a combination of any of the above. Since the timing and size of acquisitions cannot be readily predicted, we may need to be able to obtain funding on short notice to benefit fully from attractive acquisition opportunities. Such funding may not be available on acceptable terms. In addition, the level of our indebtedness may impact our ability to borrow at the Company level. Another source of capital for us may be the sale of additional shares, subject to market conditions and investor demand for the shares at prices that we consider to be in the interests of our shareholders. These risks may materially adversely affect our ability to pursue our acquisition strategy successfully and materially adversely affect our financial condition, business and results of operations.

While we intend to make regular cash distributions to our shareholders, the Company's board of directors has full authority and discretion over the distributions of the Company, other than the profit allocation, and it may decide to reduce or eliminate distributions at any time, which may materially adversely affect the market price for our shares.

To date, we have declared and paid quarterly distributions, and although we intend to pursue a policy of paying regular distributions, the Company's board of directors has full authority and discretion to determine whether or not a distribution by the Company should be declared and paid to the Trust and in turn to our shareholders, as well as the amount and timing of any distribution. In addition, the management fee and profit allocation will be payment obligations of the Company and, as a result, will be paid, along with other Company obligations, prior to the payment of distributions to our shareholders. The Company's board of directors may, based on their review of our financial condition and results of operations and pending acquisitions, determine to reduce or eliminate distributions, which may have a material adverse effect on the market price of our shares.

We will rely entirely on receipts from our businesses to make distributions to our shareholders.

The Trust's sole asset is its interest in the Company, which holds controlling interests in our businesses. Therefore, we are dependent upon the ability of our businesses to generate earnings and cash flow and distribute them to us in the form of interest and principal payments on indebtedness and, from time to time, dividends on equity to enable us, first, to satisfy our financial obligations and second to make distributions to our shareholders. This ability may be subject to limitations under laws of the jurisdictions in which they are incorporated or organized. If, as a consequence of these various restrictions, we are unable to generate sufficient receipts from our businesses, we may not be able to declare, or may have to delay or cancel payment of, distributions to our shareholders.

We do not own 100% of our businesses. While we receive cash payments from our businesses which are in the form of interest payments, debt repayment and dividends, if any dividends were to be paid by our businesses, they would be shared pro rata with the minority shareholders of our businesses and the amounts of dividends made to minority shareholders would not be available to us for any purpose, including Company debt service or distributions to our shareholders. Any proceeds from the sale of a business will be allocated among us and the non-controlling shareholders of the business that is sold.

The Company's board of directors has the power to change the terms of our shares in its sole discretion in ways with which you may disagree.

As an owner of our shares, you may disagree with changes made to the terms of our shares, and you may disagree with the Company's board of directors' decision that the changes made to the terms of the shares are not materially adverse to you as a shareholder or that they do not alter the characterization of the Trust. Your recourse, if you disagree, will be limited because our Trust Agreement gives broad authority and discretion to our board of directors. However, the Trust Agreement does not relieve the Company's board of directors from any fiduciary obligation that is imposed on them pursuant to applicable law. In addition, we may change the nature of the shares to be issued to raise additional equity and remain a fixed-investment trust for tax purposes.

Certain provisions of the LLC Agreement of the Company and the Trust Agreement make it difficult for third parties to acquire control of the Trust and the Company and could deprive you of the opportunity to obtain a takeover premium for your shares.

The amended and restated LLC Agreement of the Company, which we refer to as the LLC Agreement, and the amended and restated Trust Agreement of the Trust, which we refer to as the Trust Agreement, contain a number of provisions that could make it more difficult for a third party to acquire, or may discourage a third party from acquiring, control of the Trust and the Company. These provisions include, among others:

- restrictions on the Company's ability to enter into certain transactions with our major shareholders, with the exception of our Manager, modeled on the limitation contained in Section 203 of the Delaware General Corporation Law, or DGCL;
- allowing only the Company's board of directors to fill newly created directorships, for those directors who are elected by our shareholders, and allowing only our Manager, as holder of a portion of the Allocation Interests, to fill vacancies with respect to the class of directors appointed by our Manager;
- requiring that directors elected by our shareholders be removed, with or without cause, only by a vote of 85% of our shareholders;
- requiring advance notice for nominations of candidates for election to the Company's board of directors or for proposing matters that can be acted upon by our shareholders at a shareholders' meeting;

- having a substantial number of additional authorized but unissued shares that may be issued without shareholder action;

- providing the Company’s board of directors with certain authority to amend the LLC Agreement and the Trust Agreement, subject to certain voting and consent rights of the holders of trust interests and Allocation Interests;
- providing for a staggered board of directors of the Company, the effect of which could be to deter a proxy contest for control of the Company’s board of directors or a hostile takeover; and
- limitations regarding calling special meetings and written consents of our shareholders.

These provisions, as well as other provisions in the LLC Agreement and Trust Agreement may delay, defer or prevent a transaction or a change in control that might otherwise result in you obtaining a takeover premium for your shares.

We may have conflicts of interest with the noncontrolling shareholders of our businesses.

The boards of directors of our respective businesses have fiduciary duties to all their shareholders, including the Company and noncontrolling shareholders. As a result, they may make decisions that are in the best interests of their shareholders generally but which are not necessarily in the best interest of the Company or our shareholders. In dealings with the Company, the directors of our businesses may have conflicts of interest and decisions may have to be made without the participation of directors appointed by the Company, and such decisions may be different from those that we would make.

Our financing arrangements expose us to additional risks associated with leverage and inhibits our operating flexibility and reduces cash flow available for distributions to our shareholders.

At December 31, 2018, we had approximately $1.1 billion of consolidated debt outstanding. This level of consolidated debt could have important consequences, such as (i) limiting our ability to obtain additional financing to fund our potential growth; (ii) increasing the cost of future borrowings; (iii) limiting our ability to use operating cash flow in our other areas of our business because of cash requirements to service our debt; and (iv) increasing our vulnerability to adverse economic conditions. Our financing arrangements subject the Company to certain customary affirmative and restrictive covenants. If we violate any of these covenants, our lender may accelerate the maturity of any debt outstanding under our 2018 Credit Facility. Our ability to meet our debt service obligations may be affected by events beyond our control and will depend primarily upon cash produced by our businesses. Any failure to comply with the terms of our indebtedness could materially adversely affect us.

Changes in interest rates could materially adversely affect us.

Our Credit Facility bears interest at floating rates which will generally change as interest rates change. We bear the risk that the rates we are charged by our lender will increase faster than the earnings and cash flow of our businesses, which could reduce profitability, adversely affect our ability to service our debt, cause us to breach covenants contained in our Revolving Credit Facility and reduce cash flow available for distribution, any of which could materially adversely affect us.

We may engage in a business transaction with one or more target businesses that have relationships with our officers, our directors, our Manager or CGI, which may create potential conflicts of interest.

We may decide to acquire one or more businesses with which our officers, our directors, our Manager or CGI have a relationship. While we might obtain a fairness opinion from an independent investment banking firm, potential conflicts of interest may still exist with respect to a particular acquisition, and, as a result, the terms of the acquisition of a target business may not be as advantageous to our shareholders as it would have been absent any conflicts of interest.

CGI may exercise significant influence over the Company.

CGI, through a wholly owned subsidiary, owns 8,053,000 or approximately 13.4% of our common shares and may have significant influence over the election of directors in the future.

We could be negatively impacted by cybersecurity attacks.

We, and our businesses, use a variety of information technology systems in the ordinary course of business, which are potentially vulnerable to unauthorized access, computer viruses and cybersecurity attacks, including cybersecurity attacks to our information technology infrastructure and attempts by others to gain access to our propriety or sensitive information, and ranging from individual attempts to advanced persistent threats. The procedures and controls we use to monitor these threats and mitigate our exposure may not be sufficient to prevent cybersecurity incidents. The results of these incidents could include misstated financial data, theft of trade secrets or other intellectual property, liability for disclosure of confidential customer, supplier or employee information, increased costs arising from the implementation of additional security protective measures, litigation and reputational damage, which could materially adversely affect

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our financial condition, business and results of operations. Any remedial costs or other liabilities related to cybersecurity incidents may not be fully insured or indemnified by other means.

If, in the future, we cease to control and operate our businesses, we may be deemed to be an investment company under the Investment Company Act of 1940, as amended.

Under the terms of the LLC Agreement, we have the latitude to make investments in businesses that we will not operate or control. If we make significant investments in businesses that we do not operate or control or cease to operate and control our businesses, we may be deemed to be an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. If we were deemed to be an investment company, we would either have to register as an investment company under the Investment Company Act, obtain exemptive relief from the SEC or modify our investments or organizational structure or our contract rights to fall outside the definition of an investment company. Registering as an investment company could, among other things, cause us to lose our status as an exempt publicly traded partnership for federal income tax purposes, materially adversely affect our financial condition, business and results of operations, materially limit our ability to borrow funds or engage in other transactions involving leverage and require us to add directors who are independent of us or our Manager and otherwise will subject us to additional regulation that will be costly and time-consuming.

Risks Related to the Preferred Shares

Distributions on the Series A Preferred Shares are discretionary and non-cumulative.

Distributions on the Series A Preferred Shares are discretionary and non-cumulative. Holders of the Series A Preferred Shares will only receive distributions of the Series A Preferred Shares when, as and if declared by the board of directors of the Company. Consequently, if the board of directors of the Company does not authorize and declare a distribution for a distribution period, holders of the Series A Preferred Shares would not be entitled to receive any distribution for such distribution period, and such unpaid distribution will not be payable in such distribution period or in later distribution periods. We will have no obligation to pay distributions for a distribution period if the board of directors of the Company does not declare such distribution before the scheduled record date for such period, whether or not distributions are declared or paid for any subsequent distribution period with respect to the Series A Preferred Shares, or any other preferred shares we may issue or our common shares. This may result in holders of the Series A Preferred Shares not receiving the full amount of distributions that they expect to receive, or any distributions, and may make it more difficult to resell Series A Preferred Shares or to do so at a price that the holder finds attractive. The board of directors of the Company may, in its sole discretion, determine to suspend distributions on the Series A Preferred Shares, which may have a material adverse effect on the market price of the Series A Preferred Shares. There can be no assurances that our operations will generate sufficient cash flows to enable us to pay distributions on the Series A Preferred Shares. Our financial and operating performance is subject to prevailing economic and industry conditions and to financial, business and other factors, some of which are beyond our control.

The Series A and Series B Preferred Shares are equity securities and are subordinated to our existing and future indebtedness.

The Series A and Series B Preferred Shares are our equity interests and do not constitute indebtedness. This means that the Series A and Series B Preferred Shares rank junior to all of our indebtedness and to other non-equity claims on us and our assets available to satisfy claims on us, including claims in our liquidation. In addition, the rights allocated to the Company's allocation interests may reduce the amount available for distribution by the trust upon its liquidation, dissolution or winding up. Further, the Series A and Series B Preferred Shares place no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions, subject only to the limited voting rights.

Risks Relating to Our Manager

Our Chief Executive Officer, directors, Manager and management team may allocate some of their time to other businesses, thereby causing conflicts of interest in their determination as to how much time to devote to our affairs, which may materially adversely affect our operations.

While the members of our management team anticipate devoting a substantial amount of their time to the affairs of the Company, only Mr. Ryan Faulkingham, our Chief Financial Officer, devotes substantially all of his time to our affairs. Our Chief Executive Officer, directors, Manager and members of our management team may engage in other business activities. This may result in a conflict of interest in allocating their time between our operations and our management and operations of other businesses. Their other business endeavors may be related to CGI, which will continue to own several businesses that were managed by our management team prior to our initial public offering, or affiliates of CGI as well as other parties. Conflicts of interest that arise over the allocation of time may not always be resolved in our favor and may materially adversely affect our operations. See the section entitled "Certain Relationships and Related Party Transactions" for the potential conflicts of interest of which you should be aware.

Our Manager and its affiliates, including members of our management team, may engage in activities that compete with us or our businesses.

While our management team intends to devote a substantial majority of their time to the affairs of the Company, and while our Manager and its affiliates currently do not manage any other businesses that are in similar lines of business as our businesses, and while our Manager must present all opportunities that meet the Company's acquisition and disposition criteria to the Company's board of directors, neither our management team nor our Manager is expressly prohibited from investing in or managing other entities, including those that are in the same or similar line of business as our businesses. In this regard, the Management Services Agreement and the obligation to provide management services will not create a mutually exclusive relationship between our Manager and its affiliates, on the one hand, and the Company, on the other.

Our Manager need not present an acquisition or disposition opportunity to us if our Manager determines on its own that such acquisition or disposition opportunity does not meet the Company's acquisition or disposition criteria.

Our Manager will review any acquisition or disposition opportunity presented to the Manager to determine if it satisfies the Company's acquisition or disposition criteria, as established by the Company's board of directors from time to time. If our Manager determines, in its sole discretion, that an opportunity fits our criteria, our Manager will refer the opportunity to the Company's board of directors for its authorization and approval prior to the consummation thereof; opportunities that our Manager determines do not fit our criteria do not need to be presented to the Company's board of directors for consideration. If such an opportunity is ultimately profitable, we will have not participated in such opportunity. Upon a determination by the Company's board of directors not to promptly pursue an opportunity presented to it by our Manager in whole or in part, our Manager will be unrestricted in its ability to pursue such opportunity, or any part that we do not promptly pursue, on its own or refer such opportunity to other entities, including its affiliates.

We cannot remove our Manager solely for poor performance, which could limit our ability to improve our performance and could materially adversely affect the market price of our shares.

Under the terms of the management services agreement, our Manager cannot be removed as a result of under-performance. Instead, the Company's board of directors can only remove our Manager in certain limited circumstances or upon a vote by the majority of the Company's board of directors and the majority of our shareholders to terminate the management services agreement. This limitation could materially adversely affect the market price of our shares.

Our Manager can resign on 180 days' notice and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could materially adversely affect our financial condition, business and results of operations as well as the market price of our shares.

Our Manager has the right, under the management services agreement, to resign at any time on 180 days' written notice, whether we have found a replacement or not. If our Manager resigns, we may not be able to contract with a new manager or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 90 days, or at all, in which case our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management, acquisition activities and supervision of our businesses is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our Manager and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our businesses may result in additional costs and time delays that could materially adversely affect our financial condition, business and results of operations.

We must pay our Manager the management fee regardless of our performance.

Our Manager is entitled to receive a management fee that is based on our adjusted consolidated net assets, as defined in the management services agreement, regardless of the performance of our businesses. The calculation of the management fee is unrelated to the Company's net income. As a result, the management fee may incentivize our

Manager to increase the amount of our assets, for example, the acquisition of additional assets or the incurrence of third party debt rather than increase the performance of our businesses.

We cannot determine the amount of the management fee that will be paid over time with any certainty.

The management fee paid to CGM for the year ended December 31, 2018 was $44.3 million. The management fee is calculated by reference to the Company's adjusted net assets, which will be impacted by the acquisition or disposition of businesses, which can be significantly influenced by our Manager, as well as the performance of our businesses and other businesses we may acquire in the future. Changes in adjusted net assets and in the resulting management fee could be significant, resulting in a material adverse effect on the Company's results of operations. In addition, if the performance of the Company declines, assuming adjusted net assets remains the same, management fees will increase as a percentage of the Company's net income.

We cannot determine the amount of profit allocation that will be paid over time with any certainty.

We cannot determine the amount of profit allocation that will be paid over time with any certainty. Such determination would be dependent on the potential sale proceeds received for any of our businesses and the performance of the Company and its businesses over a multi-year period of time, among other factors that cannot be predicted with certainty at this time. Such factors may have a significant impact on the amount of any profit allocation to be paid. Likewise, such determination would be dependent on whether certain hurdles were surpassed giving rise to a payment of profit allocation. Any amounts paid in respect of the profit allocation are unrelated to the management fee earned for performance of services under the management services agreement.

The fees to be paid to our Manager pursuant to the management services agreement, the offsetting management services agreements and integration services agreements and the profit allocation to be paid to certain persons who are employees and partners of our Manager, as holders of the Allocation Interests, pursuant to the LLC Agreement may significantly reduce the amount of cash available for distribution to our shareholders.

Under the management services agreement, the Company will be obligated to pay a management fee to and, subject to certain conditions, reimburse the costs and out-of-pocket expenses of our Manager incurred on behalf of the Company in connection with the provision of services to the Company. Similarly, our businesses will be obligated to pay fees to and reimburse the costs and expenses of our Manager pursuant to any offsetting management services agreements entered into between our Manager and one of our businesses, or any integration services agreements to which such businesses are a party. In addition, Sostratus LLC, as holder of the Allocation Interests, will be entitled to receive profit allocations. While it is difficult to quantify with any certainty the actual amount of any such payments in the future, we do expect that such amounts could be substantial. See the section entitled "Certain Relationships and Related Party Transactions" for more information about these payment obligations of the Company. The management fee and profit allocation will be payment obligations of the Company and, as a result, will be paid, along with other Company obligations, prior to the payment of distributions to shareholders. As a result, the payment of these amounts may significantly reduce the amount of cash flow available for distribution to our shareholders.

Our Manager's influence on conducting our operations, including on our conducting of transactions, gives it the ability to increase its fees, which may reduce the amount of cash flow available for distribution to our shareholders.

Under the terms of the management services agreement, our Manager is paid a management fee calculated as a percentage of the Company's adjusted net assets for certain items and is unrelated to net income or any other performance base or measure. Our Manager, controls, may advise us to consummate transactions, incur third party debt or conduct our operations in a manner that, in our Manager's reasonable discretion, are necessary to the future growth of our businesses and are in the best interests of our shareholders. These transactions, however, may increase the amount of fees paid to our Manager. Our Manager's ability to increase its fees, through the influence it has over our operations, may increase the compensation paid by our Manager. Our Manager's ability to influence the management fee paid to it by us could reduce the amount of cash flow available for distribution to our shareholders.

Fees paid by the Company and our businesses pursuant to integration services agreements do not offset fees payable under the management services agreement and will be in addition to the management fee payable by the Company under the management services agreement.

The management services agreement provides that our businesses may enter into integration services agreements with our Manager pursuant to which our businesses will pay fees to our Manager for services provided by our Manager

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relating to the integration of a business's financial reporting, computer systems and decision making and management processes into our operations following an acquisition of such business. See the section entitled "Certain Relationships and Related Party Transactions" for more information about these agreements. Unlike fees paid under the offsetting management services agreements, fees that are paid pursuant to such integration services agreements will not reduce the management fee payable by the Company. Therefore, such fees will be in excess of the management fee payable by the Company.

The fees to be paid to our Manager pursuant to these integration service agreements will be paid prior to any principal, interest or dividend payments to be paid to the Company by our businesses, which will reduce the amount of cash flow available for distributions to shareholders.

Our profit allocation may induce our Manager to make suboptimal decisions regarding our operations.

Sostratus LLC, as holder of our Allocation Interests, will receive a profit allocation based on ongoing cash flows and capital gains in excess of a hurdle rate. Certain persons who are employees and partners of our Manager are owners of Sostratus LLC. In this respect, a calculation and payment of profit allocation may be triggered upon the sale of one of our businesses. As a result, our Manager may be incentivized to recommend the sale of one or more of our businesses to the Company's board of directors at a time that may not be optimal for our shareholders.

The obligations to pay the management fee and profit allocation may cause the Company to liquidate assets or incur debt.

If we do not have sufficient liquid assets to pay the management fee and profit allocation when such payments are due, we may be required to liquidate assets or incur debt in order to make such payments. This circumstance could materially adversely affect our liquidity and ability to make distributions to our shareholders.

Risks Related to Taxation

Our shareholders will be subject to tax on their share of the Company's taxable income, which taxes or taxable income could exceed the cash distributions they receive from the Trust.

For so long as the Company or the Trust (if it is treated as a tax partnership) would not be required to register as an investment company under the Investment Company Act of 1940 and at least 90% of our gross income for each taxable year constitutes ''qualifying income'' within the meaning of Section 7704(d) of the Internal Revenue Code of 1986, as amended (the ''Code''), on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. In that case our shareholders will be subject to U.S. federal income tax and, possibly, state, local and foreign income tax, on their share of the Company's taxable income, which taxes or taxable income could exceed the cash distributions they receive from the Trust. There is, accordingly, a risk that our shareholders may not receive cash distributions equal to that portion of our taxable income or sufficient in amount even to satisfy their personal tax liability that results from that income. This may result from gains on the sale or exchange of stock or debt of subsidiaries that will be allocated to shareholders who hold (or are deemed to hold) shares on the day such gains were realized if there is no corresponding distribution of the proceeds from such sales, or where a shareholder disposes of shares after an allocation of gain but before proceeds (if any) are distributed by the Company. Shareholders may also realize income in excess of distributions due to the Company's use of cash from operations or sales proceeds for uses other than to make distributions to shareholders, including funding acquisitions, satisfying short- and long-term working capital needs of our businesses, or satisfying known or unknown liabilities. In addition, certain financial covenants with the Company's lenders may limit or prohibit the distribution of cash to shareholders. The Company's board of directors is also free to change the Company's distribution policy. The Company is under no obligation to make distributions to shareholders equal to or in excess of their portion of our taxable income or sufficient in amount even to satisfy the tax liability that results from that income.

All of the Company's income could be subject to an entity-level tax in the United States, which could result in a material reduction in cash flow available for distribution to holders of shares of the Trust and thus could result in a substantial reduction in the value of the shares.

We do not expect the Company to be characterized as a corporation so long as it would not be required to register as an investment company under the Investment Company Act of 1940 and 90% or more of its gross income for each taxable year constitutes "qualifying income." The Company expects to receive more than 90% of its gross income each year from dividends, interest and gains on sales of stock or debt instruments, including principally from or with respect to stock or debt of corporations in which the Company holds a majority interest. The Company intends to treat all such dividends, interest and gains as “qualifying income.”

If the Company fails to satisfy this "qualifying income" exception, the Company will be treated as a corporation for U.S. federal (and certain state and local) income tax purposes, and would be required to pay income tax at regular corporate rates on its income. Taxation of the Company as a corporation could result in a material reduction in distributions to our shareholders and after-tax return and, thus, could likely result in a reduction in the value of, or materially adversely affect the market price of, the shares of the Trust.

A shareholder may recognize a greater taxable gain (or a smaller tax loss) on a disposition of shares than expected because of the treatment of debt under the partnership tax accounting rules.

We may incur debt for a variety of reasons, including for acquisitions as well as other purposes. Under partnership tax accounting principles (which apply to the Company), debt of the Company generally will be allocable to our shareholders, who will realize the benefit of including their allocable share of the debt in the tax basis of their investment in shares. At the time a shareholder later sells shares, the selling shareholder's amount realized on the sale will include not only the sales price of the shares but also the shareholder's portion of the Company's debt allocable to his shares (which is treated as proceeds from the sale of those shares). Depending on the nature of the Company's activities after having incurred the debt, and the utilization of the borrowed funds, a later sale of shares could result in a larger taxable gain (or a smaller tax loss) than anticipated.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of holders of the Shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. You should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in the Shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. For example, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us and adversely affect an investment in our Shares. Our organizational documents and agreements permit the Board of Directors to modify our operating agreement from time to time, without the consent of the holders of Shares, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of the holders of our Shares. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders in a manner that reflects such holders' beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated, or disallowed, in a manner that adversely affects holders of the Shares.

Risks Relating Generally to Our Businesses

Impairment of our goodwill, indefinite-lived intangible assets or other long-lived assets could result in significant charges that would adversely impact our future operating results.

A significant portion of our long-term assets are comprised of intangible assets, including goodwill and indefinite lived intangible assets recorded as a result of past acquisitions. We assess the potential impairment of goodwill and indefinite lived intangible assets on an annual basis, as well as whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If our analysis indicates that an individual asset's carrying value exceeds its fair market value, we will record a loss equal to the excess of the individual asset's carrying value over its fair value. The impairment testing steps require significant amounts of judgment and subjectivity.

Factors that could trigger impairment include the following:

- significant under performance relative to historical or projected future operating results;

- significant changes in the manner of or use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period;
- changes in our organization or management reporting structure could result in additional reporting units, which may require alternative methods of estimating fair values or greater desegregation or aggregation in our analysis by reporting unit; and
- a decline in our market capitalization below net book value.

As of December 31, 2018, we had identified indefinite lived intangible assets with a carrying value in our financial statements of $70.4 million, and goodwill of $653.7 million.

Our businesses are subject to unplanned business interruptions which may adversely affect our performance.

Operational interruptions and unplanned events at one or more of our production facilities, such as explosions, fires, inclement weather, natural disasters, accidents, transportation interruptions and supply could cause substantial losses in our production capacity. Furthermore, because customers may be dependent on planned deliveries from us, customers that have to reschedule their own operations due to our delivery delays may be able to pursue financial claims against us, and we may incur costs to correct such problems in addition to any liability resulting from such claims. Such interruptions may also harm our reputation among actual and potential customers, potentially resulting in a loss of business. To the extent these losses are not covered by insurance, our financial position, results of operations and cash flows may be adversely affected by such events.

Our businesses rely and may rely on their intellectual property and licenses to use others' intellectual property, for competitive advantage. If our businesses are unable to protect their intellectual property, are unable to obtain or retain licenses to use other's intellectual property, or if they infringe upon or are alleged to have infringed upon others' intellectual property, it could have a material adverse effect on their financial condition, business and results of operations.

Each business's success depends in part on their, or licenses to use others', brand names, proprietary technology and manufacturing techniques. These businesses rely on a combination of patents, trademarks, copyrights, trade secrets, confidentiality procedures and contractual provisions to protect their intellectual property rights. The steps they have taken to protect their intellectual property rights may not prevent third parties from using their intellectual property and other proprietary information without their authorization or independently developing intellectual property and other proprietary information that is similar. In addition, the laws of foreign countries may not protect our businesses' intellectual property rights effectively or to the same extent as the laws of the United States.

Stopping unauthorized use of their proprietary information and intellectual property, and defending claims that they have made unauthorized use of others' proprietary information or intellectual property, may be difficult, time-consuming and costly. The use of their intellectual property and other proprietary information by others, and the use by others of their intellectual property and proprietary information, could reduce or eliminate any competitive advantage they have developed, cause them to lose sales or otherwise harm their business.

Our businesses may become involved in legal proceedings and claims in the future either to protect their intellectual property or to defend allegations that they have infringed upon others' intellectual property rights. These claims and any resulting litigation could subject them to significant liability for damages and invalidate their property rights. In addition, these lawsuits, regardless of their merits, could be time consuming and expensive to resolve and could divert management's time and attention. The costs associated with any of these actions could be substantial and could have a material adverse effect on their financial condition, business and results of operations.

Our businesses could experience fluctuations in the costs of raw materials as a result of inflation and other economic conditions, which fluctuations could have a material adverse effect on their financial condition, business and results of operations.

Changes in inflation could materially adversely affect the costs and availability of raw materials used in our manufacturing businesses, and changes in fuel costs likely will affect the costs of transporting materials from our suppliers and shipping goods to our customers, as well as the effective areas from which we can recruit temporary staffing personnel. For example, for Advanced Circuits, the principal raw materials consist of copper and glass and typically represent approximately 20% of net sales. Prices for these key raw materials may fluctuate during periods of high demand. The ability by these businesses to offset the effect of increases in raw material prices by increasing their

prices is uncertain. If these businesses are unable to cover price increases of these raw materials, their financial condition, business and results of operations could be materially adversely affected.

Certain of our businesses are dependent on a limited number of customers to derive a large portion of their revenue, and the loss of one of these customers may adversely affect the financial condition, business and results of operations of these businesses.

Our Velocity, Liberty, Manitoba Harvest and Sterno businesses derive a significant amount of revenue from a concentrated number of retailers and distributors. Any negative change involving these retailers or distributors, including industry consolidation, store closings, reduction in purchasing levels or bankruptcies, could negatively impact the sales of these businesses and may have a material adverse effect on the results of operations, financial condition and cash flows of these businesses.

Our businesses do not have and may not have long-term contracts with their customers and clients and the loss of customers and clients could materially adversely affect their financial condition, business and results of operations.

Our businesses are and may be, based primarily upon individual orders and sales with their customers and clients. Our businesses historically have not entered into long-term supply contracts with their customers and clients. As such, their customers and clients could cease using their services or buying their products from them at any time and for any reason. The fact that they do not enter into long-term contracts with their customers and clients means that they have no recourse in the event a customer or client no longer wants to use their services or purchase products from them. If a significant number of their customers or clients elect not to use their services or purchase their products, it could materially adversely affect their financial condition, business and results of operations.

Our businesses are and may be subject to federal, state and foreign environmental laws and regulations that expose them to potential financial liability. Complying with applicable environmental laws requires significant resources, and if our businesses fail to comply, they could be subject to substantial liability.

Some of the facilities and operations of our businesses are and may be subject to a variety of federal, state and foreign environmental laws and regulations including laws and regulations pertaining to the handling, storage and transportation of raw materials, products and wastes, which require and will continue to require significant expenditures to remain in compliance with such laws and regulations currently in place and in the future. Compliance with current and future environmental laws is a major consideration for our businesses as any material violations of these laws can lead to substantial liability, revocations of discharge permits, fines or penalties. Because some of our businesses use hazardous materials and generate hazardous wastes in their operations, they may be subject to potential financial liability for costs associated with the investigation and remediation of their own sites, or sites at which they have arranged for the disposal of hazardous wastes, if such sites become contaminated. Even if they fully comply with applicable environmental laws and are not directly at fault for the contamination, our businesses may still be liable. Our businesses may also be held liable for damages caused by environmental and other conditions that existed prior to our acquisition the assets, business or operations involved, whether or not such damages are subject to indemnification from a prior owner. Costs associated with these risks could have a material adverse effect on our financial condition, business and results of operations.

Defects in the products provided by our companies could result in financial or other damages to their customers, which could result in reduced demand for our companies' products and/or liability claims against our companies.

As manufacturers and distributors of consumer products, certain of our companies are subject to various laws, rules and regulations, which may empower governmental agencies and authorities to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, a governmental authority could require our companies to repurchase or recall one or more of their products. Additionally, laws regulating certain consumer products exist in some cities and states, as well as in other countries in which they sell their products, where more restrictive laws and regulations exist or may be adopted in the future. Any repurchase or recall of such products could be costly and could damage the reputation of our companies. If any of our companies were required to remove, or voluntarily remove, their products from the market, their reputation may be tarnished and they may have large quantities of finished products that they cannot sell. Additionally, our companies may be subject to regulatory actions that could harm their reputations, adversely impact the values of their brands and/or increase the cost of production. Our companies also face exposure to product liability claims in the event that one of their products is alleged to have resulted in property damage, bodily injury or other adverse effects. Defects in products could result in customer

dissatisfaction or a reduction in, or cancellation of, future purchases or liability claims against our companies. If these defects occur frequently, our reputation may be impaired permanently. Defects in products could also result in financial or other damages to customers, for which our companies may be asked or required to compensate their customers, in the form of substantial monetary judgments or otherwise. While our companies take the steps deemed necessary to comply with all laws and regulations, there can be no assurance that rapidly changing safety standards will not render unsaleable products that complied with previously-applicable safety standards. As a result, these types of claims could have a material adverse effect on our businesses, results of operations and financial condition.

Some of our businesses are subject to certain risks associated with the movement of businesses offshore.

Some of our businesses are potentially at risk of losing business to competitors operating in lower cost countries. An additional risk is the movement offshore of some of our businesses' customers, leading them to procure products or services from more closely located companies. Either of these factors could negatively impact our financial condition, business and results of operations.

Our businesses are subject to certain risks associated with their foreign operations or business they conduct in foreign jurisdictions.

Some of our businesses have and may have operations or conduct business outside the United States. Certain risks are inherent in operating or conducting business in foreign jurisdictions, including exposure to local economic conditions; difficulties in enforcing agreements and collecting receivables through certain foreign legal systems; longer payment cycles for foreign customers; adverse currency exchange controls; exposure to risks associated with changes in foreign exchange rates; potential adverse changes in political environments; withholding taxes and restrictions on the withdrawal of foreign investments and earnings; export and import restrictions; difficulties in enforcing intellectual property rights; and required compliance with a variety of foreign laws and regulations. These risks individually and collectively have the potential to negatively impact our financial condition, business and results of operations.

Risks Related to Advanced Circuits

Advanced Circuits' customers operate in industries that experience rapid technological change resulting in short product life cycles and as a result, if the product life cycles of its customers slow materially, and research and development expenditures are reduced, its financial condition, business and results of operations will be materially adversely affected.

Advanced Circuits' customers compete in markets that are characterized by rapidly changing technology, evolving industry standards and continuous improvement in products and services. These conditions frequently result in short product life cycles. As professionals operating in research and development departments represent the majority of Advanced Circuits' net sales, the rapid development of electronic products is a key driver of Advanced Circuits' sales and operating performance. Any decline in the development and introduction of new electronic products could slow the demand for Advanced Circuits' services and could have a material adverse effect on its financial condition, business and results of operations.

Electronics manufacturing services corporations are increasingly acting as intermediaries, positioning themselves between PCB manufacturers and OEMS, which could reduce operating margins.

Advanced Circuits' OEM customers are increasingly outsourcing the assembly of equipment to third party manufacturers. These third party manufacturers typically assemble products for multiple customers and often purchase circuit boards from Advanced Circuits in larger quantities than OEM manufacturers. The ability of Advanced Circuits to sell products to these customers at margins comparable to historical averages is uncertain. Any material erosion in margins could have a material adverse effect on Advanced Circuits' financial condition, business and results of operations.

Risks Related to Arnold

Changes in the cost and availability of certain rare earth minerals and magnets could materially harm Arnold's business, financial condition and results of operations.

Arnold manufactures precision magnetic assemblies and high-performance rare earth magnets including Samarium Cobalt magnets. Arnold is especially susceptible to changes in the price and availability of certain rare earth materials. The price of these materials has fluctuated significantly in recent years and we believe price fluctuations are likely to occur in the future. Arnold's need to maintain a continuing supply of rare earth materials makes it difficult to resist price increases and surcharges imposed by its suppliers. Arnold's ability to pass increases in costs for such materials through to its customers by increasing the selling prices of its products is an important factor in Arnold's business. We cannot

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guarantee that Arnold will be able to maintain an appropriate differential at all times. If costs for rare earth materials increase, and if Arnold is unable to pass along, or is delayed in passing along, those increases to its customers, Arnold will experience reduced profitability. Rare earth minerals and magnets are available from a limited number of suppliers, primarily in China. Political and civil instability and unexpected adverse changes in laws or regulatory requirements, including with respect to export duties, quotas or embargoes, may affect the market price and availability of rare earth materials, particularly from China. If a substantial interruption should occur in the supply of rare earth materials, Arnold may not be able to obtain other sources of supply in a timely fashion, at a reasonable price or as would be necessary to satisfy its requirements. Accordingly, a change in the supply of, or price for, rare earth minerals and magnets could materially harm Arnold’s business, financial condition and results of operations.

Arnold's operations and the prior operations of predecessor companies expose it to the risk of material environmental liabilities, which could have a negative effect on its financial condition or results of operations.

Arnold may be subject to potential liabilities related to the remediation of environmental hazards and to claims of personal injuries or property damages that may be caused by hazardous substance releases and exposures, mainly because of past operations and the operations of predecessor companies. We continue to incur remedial response and voluntary clean-up costs for site contamination, even though we are indemnified for such costs, and are a party to lawsuits and claims associated with environmental and safety matters, including past production of products containing hazardous materials. Arnold also may become party to various legal proceedings relating to alleged impacts from pollutants released into the environment. Various federal, state, local and foreign governments regulate the discharge of materials into the environment and can impose substantial fines and criminal sanctions for violations. In addition, changes in laws, regulations and enforcement of policies, the discovery of previously unknown contamination or information related to individual sites, the establishment of stricter state or federal toxicity standards with respect to certain contaminants, or the imposition of new clean-up requirements or remedial techniques could require Arnold to incur additional costs in the future that would have a negative effect on its financial condition or results of operations.

Risks Related to Clean Earth

If Clean Earth is unable to renew its operating permits or lease agreements with regulatory bodies, its business would be adversely affected.

Clean Earth’s facilities operate using permits and licenses issued by various regulatory bodies at various local, state and federal government levels. Failure to renew its permits and licenses necessary to operate Clean Earth’s facilities on a timely basis or failure to renew or maintain compliance with its permits and site lease agreements on a timely basis could prevent or restrict its ability to provide certain services, resulting in a material adverse effect on its business. There can be no assurance that Clean Earth will continue to be successful in obtaining timely permit or license applications approval, maintaining compliance with its permits and lease agreements and obtaining timely lease renewals.

Clean Earth operates facilities that accept, process and/or treat materials provided by its customers. These facilities may be inherently dangerous workplaces. If Clean Earth fails to maintain safe worksites, it may be subject to significant operating risks and hazards that could result in injury or death to persons, which could result in losses or liabilities to it.

Clean Earth’s safety record is an important consideration for it and its customers. If serious accidents or fatalities occur or its safety record was to deteriorate, it may be ineligible to bid on certain work, and existing service arrangements could be terminated. Further, regulatory changes implemented by OSHA could impose additional costs on Clean Earth. Adverse experience with hazards and claims could have a negative effect on Clean Earth’s reputation with its existing or potential new customers and its prospects for future work.

If Clean Earth fails to comply with applicable environmental laws and regulations, its business could be adversely affected.

The changing regulatory framework governing Clean Earth’s business creates significant risks. Clean Earth could be held liable if its operations cause contamination of air, groundwater or soil or expose its employees or the public to contamination. Under current law, Clean Earth may be held liable for damage caused by conditions that existed before it acquired the assets, business or operations involved. Also, it may be liable if it arranges for the transportation, disposal or treatment of hazardous substances that cause environmental contamination at facilities operated by others, or if a predecessor made such arrangements and Clean Earth is a successor. Liability for environmental damage could have a material adverse effect on Clean Earth's financial condition, results of operations and cash flows.

Stringent regulations of federal, state or provincial governments have a substantial impact on Clean Earth’s contaminated soil, dredge material and solid and hazardous waste treatment, storage, disposal and beneficial use activities. Local government controls may also apply. Many complex laws, rules, orders and regulatory interpretations govern environmental protection, health, safety, noise, visual impact, odor, land use, zoning, transportation and related matters. Clean Earth also may be subject to laws concerning the protection of certain marine and bird species, their habitats, and wetlands. It may incur substantial costs in order to conduct its operations in compliance with these environmental laws and regulations. Changes in environmental laws or regulations or changes in the enforcement or interpretation of existing laws, regulations or permitted activities may require Clean Earth to make significant capital or other expenditures, to modify existing operating licenses or permits, or obtain additional approvals or limit operations. New environmental laws or regulations that raise compliance standards or require changes in operating practices or technology may impose significant costs and/or limit Clean Earth’s operations.

Clean Earth’s revenue is primarily generated as a result of requirements imposed on our customers under federal, state, and provincial laws and regulations to protect public health and the environment. If requirements to comply with laws and regulations governing management of contaminated soils, dredge material, and hazardous wastes were relaxed or less vigorously enforced at the federal, state, and local levels, demand for Clean Earth’s services could materially decrease and its revenues and earnings could be significantly reduced.

Risks Related to Manitoba Harvest

Reduced availability of raw materials and other inputs, as well as increased costs for our raw materials and other inputs, could adversely affect us.

Manitoba Harvest's business depends heavily on raw materials and other inputs used in the production of our products, particularly raw hemp seeds and organic raw hemp seeds. The raw materials are generally sourced from third-party farmers, and we are not assured of continued supply or pricing. In addition, a substantial portion of our raw materials are agricultural products, which are vulnerable to adverse weather conditions and natural disasters, such as severe rains, floods, droughts, frost, earthquakes, and pestilence. Adverse weather conditions and natural disasters also can lower hemp seeds crop yields and reduce supplies of this ingredient or increase its prices. Incremental costs, including transportation, may also be incurred if we need to find alternate short-term supplies of hemp seeds from other growers. These factors can increase costs, decrease revenues and lead to additional charges to earnings, which may have a material adverse effect on our business, results of operations and financial condition.

Cost increases in raw materials and other inputs could cause our profits to decrease significantly compared to prior periods, as we may be unable to increase our prices to offset the increased cost of these raw materials and other inputs. If we are unable to obtain raw materials and other inputs for our products or offset any increased costs for such raw materials and inputs, our business could be negatively affected.

Risks Related to Sterno

Sterno's products operate at high temperatures and use flammable fuels, each of which could subject our business to product liability claims.

Sterno products expose it to potential product liability claims typical of fuel based heating products. The fuels Sterno uses in its products are flammable and may be toxic if ingested. Although Sterno products have comprehensive labeling and it follows government and third party based standards and protocols, it cannot guarantee there will not be accidents due to misuse or otherwise. Accidents involving Sterno products may have an adverse effect on its reputation and reduce demand for its products. In addition, Sterno may be held responsible for damages beyond its insurance coverage and there can be no guarantee that it will be able to produce adequate insurance coverage in the future.

Risks Related to Velocity Outdoor

Velocity’s products are subject to product safety and liability lawsuits, which could materially adversely affect its financial condition, business and results of operations.

As a manufacturer of recreational airguns and archery products, Velocity is involved in various litigation matters that occur in the ordinary course of business. Although Velocity provides information regarding safety procedures and warnings with all of its product packaging, not all users of its products will observe all proper safety practices. Failure to observe proper safety practices may result in injuries that give rise to product liability and personal injury claims and lawsuits, as well as claims for breach of contract, loss of profits and consequential damages.

If any unresolved lawsuits or claims are determined adversely, they could have a material adverse effect on Velocity, its financial condition, business and results of operations. As more of Velocity's products are sold to and used by its consumers, the likelihood of product liability claims being made against it increases. In addition, the running of statutes of limitations in the United States for personal injuries to minor children may be suspended during the child's legal minority. Therefore, it is possible that accidents resulting in injuries to minors may not give rise to lawsuits until a number of years later.

While Velocity maintains product liability insurance to insure against potential claims, there is a risk such insurance may not be sufficient to cover all liabilities incurred in connection with such claims and the financial consequences of these claims and lawsuits will have a material adverse effect on its business, financial condition, liquidity and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

NONE

ITEM 2. PROPERTIES

The following is a summary as of December 31, 2018 of the properties owned or leased by our business.

5.11

5.11 is headquartered in Irvine, California and leases offices and warehouse space in locations worldwide. The summary below outlines 5.11's leased offices and warehouse space.

Location	Square Feet	Use
Irvine, CA	21,807	Office
Irvine, CA	1,073	Office
Irvine, CA	4,381	Office
Manteca, CA	400,000	Warehouse
Penrose Place, CO	1,100	Office
Seattle, WA	11,340	Office
Mexico City, Mexico	4,628	Office
Bankstown, Australia	10,387	Office
Malmo, Sweden	6,049	Office
Kowloon Bay, Hong Kong	17,759	Office
Dubai, UAE	1,951	Office
Sao Paolo, Brazil	1,798	Office

In addition, at December 31, 2018, 5.11 leased space for 46 retail stores, ranging in size from 3,250 square feet to 8,375 square feet.

Ergobaby

Ergobaby is headquartered in Los Angeles, California and has four other office locations worldwide. The summary below outlines Ergobaby's property locations. All locations are leased.

	Location	Square Feet
Ergobaby - Corporate	Los Angeles, CA	16,378
Ergobaby - Office	Los Angeles, CA	3,292
Ergobaby - Office	Salt Lake City, Utah	3,550
Ergobaby Europe	Hamburg, Germany	2,410
Ergobaby France	Paris, France	4,680
Ergobaby UK	Swinden, United Kingdom	251

Tula	San Diego, CA	4,915
Tula	Bialystok, Poland	9,688

Liberty Safe

Liberty Safe is headquartered in Payson, Utah. Liberty leases office and warehouse facilities in Payson, Utah, where it is headquartered. The corporate headquarters and manufacturing facility are located in a 312,000 square foot building. Liberty leases an additional warehouse facility totaling approximately 13,000 square feet.

Manitoba Harvest

Manitoba Harvest is headquartered in Winnipeg, Manitoba. Manitoba Harvest leases office and warehouse facilities at two locations in a connected building in Winnipeg, Manitoba. The manufacturing and warehouse facility are located in a facility totaling approximately 20,000 square feet, and its customer experience center and additional warehouse space are located in a facility that total approximately 11,000 square feet. Manitoba Harvest's subsidiary, HOCI, owns a recently built facility on seven acres of land in St. Agathe, Manitoba. The facility is approximately 35,000 square feet and comprises manufacturing, warehouse and office space. Manitoba Harvest also leases a corporate office in Minneapolis, Minnesota which opened in 2017.

Advanced Circuits

Advanced Circuits' operations are located in an 113,000 square foot building in Aurora, Colorado, a 30,000 square foot building in Tempe, Arizona, and a 50,000 square foot building in Maple Grove, Minnesota. These facilities are leased and comprise both the factory and office space. The lease terms are for approximately 15 years with a renewal option at the Aurora, Colorado location for an additional 10 years.

Arnold

Arnold is headquartered in Rochester, New York and has nine manufacturing facilities. The summary below outlines Arnold’s property locations. Arnold owns the Ogallala, Nebraska location and the other locations are leased.

Location	Square Feet	Use
Marengo, IL	94,220	Office/Warehouse
Marietta, OH	81,000	Office/Warehouse
Marengo, IL	55,200	Office/Warehouse
Norfolk, NE	109,000	Office/Warehouse
Rochester, NY	73,000	Office/Warehouse
Ogallala, NE	25,000	Office/Warehouse
Guangdong Province, China	154,210	Office/Warehouse
Sheffield, England	25,000	Office/Warehouse
Lupfig, Switzerland	52,937	Office/Warehouse
Saint-Martin, France	1,528	Office
Algonquin, IL	~750	Corporate
Madison, WI	~1277	Research

Clean Earth

Clean Earth is headquartered in Hatboro, Pennsylvania and has eighteen permitted facilities as well as several offices. The summary below outlines Clean Earth's property locations.

Location (County, State)	Operation	Size	Leased or Owned
Montgomery, PA	Corporate Headquarters	16,669 sq. ft.	Leased
Butler, PA	Offices	7,525 sq. ft.	Leased
Middlesex, NJ	Fixed Base Remediation	~ 16 acres	Leased
Hudson, NJ	Dredged Material Processing and Beneficial Reuse	~ 7 acres	Leased
Hudson, NJ	RCRA TSDF	~ 14.5 acres	Owned/ Leased

Hudson, NJ	Dredging Services and Beneficial Reuse	~ 20 acres	Lease
Philadelphia, PA	Med. Temperature Thermal Desorption	8.5 acres	Owned
Bucks, PA	Med. Temperature Thermal Desorption	7.8 acres	Owned
Lycoming, PA	Drill Cuttings Stabilization	~ 2 acres	Leased
New Castle, DE	Med. Temperature Thermal Desorption	7.6 acres	Leased
Prince Georges, MD	Chemical Stabilization	42.49 acres	Owned
Washington, MD	Chemical Stabilization	13.67 acres	Owned
Glades, FL	Med. Temperature Thermal Desorption	11.29 acres	Owned
Camden, GA	Med. Temperature Thermal Desorption	2.92 acres	Owned
Marshall, KY	RCRA TSDF	~ 25.2 acres	Owned
Monongalia, WV	RCRA TSDF - Aerosol Recycling	~ 1 acres	Owned
Butler, PA	Transportation facility	1,500 sq. ft.	Leased
Newport News, VA	Office & Warehouse	3,200 sq. ft.	Leased
Hartford, CT	Thermal Desorption	16 acres	Owned
Etowah, AL	RCRA Part B Permitted Hazardous Waste TSDF	42 acres	Owned
Allentown, PA	PADEP Solid Waste permit Handler	32,000 sq. ft.	Leased
Allentown, PA	PADEP RCRA Part B Mercury (D009) PCB Capacitors	32,132 sq. ft.	Leased
Richmond, VA	Universal waste/Electronic Waste/10-day In-transit Storage	10,625 sq. ft.	Leased
West Melbourne, FL	FLDEP U&E Waste Handler	15,000 sq. ft.	Leased
West Melbourne, FL	RCRA PART B Mercury/PCB's/10-=day In-transit Storage	13,000 sq. ft.	Leased
Hayward, CA	DTSC RCRA Permit For Mercury (D009)	6,892 sq. ft.	Leased
Modesto, CA	Registered U & E Waste Handler	25,992 sq. ft.	Leased
DeKalb, GA	RCRA Part B Permitted Hazardous Waste TSDF	~ 1 acres	Owned
DeKalb, GA	RCRA Part B Permitted Hazardous Waste TSDF, Storage	~ 1 acres	Leased
Washington, NY	Thermal Desorption	16.7 acres	Owned
Merrimack, NH	Thermal Desorption	21.6 acres	Owned
Wayne, MI	Non Hazardous Waste Water Treatment	2.4 acres	Owned
Mecklenburg, NC	RCRA PART B Permitted Hazardous Waste TSDF and Waste Water Treatment	3.3 acres	Owned

Foam Fabricators

Foam Fabricators is headquartered in Scottsdale, Arizona and operates 13 molding and fabricating facilities across North America.

Location	Square Feet	Leased or Owned
Anderson, South Carolina	133,250	Leased
Compton, California	44,000	Leased
Erie, Pennsylvania	199,962	Leased
Fort Madison, Iowa	80,000	Leased
Jackson, Tennessee	55,000	Leased
Jefferson, Georgia	60,000	Leased
Keller, Texas	131,073	Leased
Modesto, California	79,000	Leased
El Dorado Springs, Missouri	38,000	Owned

New Albany, Indiana	65,000	Owned

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Bloomsburg, Pennsylvania	54,000	Owned
Tijuana, Mexico	60,000	Leased
Queretaro, Mexico	100,000	Leased
Scottsdale, Arizona	7,000	Leased
Louisville, Kentucky	3,000	Leased

Sterno

Sterno is headquartered in Corona, California. Sterno owns a 103,500 square foot manufacturing and production facility in Memphis, Tennessee, a 214,000 square foot manufacturing and production facility in Texarkana, Texas, and a 15,000 square foot facility La Porte County, Indiana. All other properties are leased.

Location	Square Feet	Use
Corona, CA	12,330	Corporate Office
Memphis, TN	103,500	Manufacturing
Texarkana, TX	214,080	Manufacturing
Delta, Canada	45,000	Warehouse
La Porte, IN	15,000	Office
Toronto, Canada	13,867	Office
Vancouver, Canada	50,372	Office
Vancouver, Canada	33,711	Warehouse
Montreal, Canada	2,100	Warehouse
Montreal, Canada	12,500	Office
Atlanta, GA	1,235	Showroom
Las Vegas, NV	342	Showroom
Yuyao, China	2,982	Office
Yuyao, China	323	Office
Shunde, China	343	Office
Provo, UT	171,361	Office/Warehouse
Spanish Fork, UT	313,719	Warehouse
Bentonville, AR	3,000	Office
Calgary, Canada	15,961	Office/Warehouse

Velocity Outdoor

Velocity Outdoor is headquartered in Bloomfield, New York. Velocity owns a 225,000 square foot manufacturing facility in Bloomfield, New York that also holds their corporate offices, and leases a 144,000 square foot finished goods warehouse in Farmington, New York. Velocity's Ravin subsidiary operates an 80,000 square foot manufacturing facility in Superior, Wisconsin.

Our corporate offices are located in Westport, Connecticut, and Irvine, California, where we utilize space provided by our Manager. We believe that our properties and the terms of their leases at each of our businesses are sufficient to meet our present needs and we do not anticipate any difficulty in securing additional space, as needed, on acceptable terms.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, we are involved in various claims and legal proceedings. While the ultimate resolution of these matters has yet to be determined, we do not believe that their outcome will have a material adverse effect on our financial position or results of operations.

Arnold

Our Arnold subsidiary, was named as co-defendant, together with 300 West LLC ("300 West"), in a suit filed in the Twenty-Second Judicial Circuit, McHenry County, Illinois, Chancery Division (Case No. 13CH1046) in 2013 by the State of Illinois (the "Marengo Litigation"). Arnold leases a site in Marengo, McHenry County, Illinois (the "Site") from 300 West. Since 2008, Arnold and 300 West have been a part of the Illinois Remediation Program with respect to the Site. In the Marengo Litigation, the plaintiff claimed that 300 West and Arnold discharged Chlorinated VOCs into the groundwater on-Site, which has since migrated off-Site into private drinking wells. The State has sought injunctive relief and civil penalties. Any damages incurred by Arnold in connection with the Marengo Litigation are subject to indemnification pursuant to the Stock Purchase Agreement, among SPS Technologies, LLC ("SPS"), SPS Technologies Limited ("SPS Ltd."), Precision Castparts Corp. (collectively with SPS and SPS Ltd., the "SPS Entities"), Arnold and Audax Private Equity Fund, L.P., dated December 20, 2004, and prior consents to indemnification given by the SPS Entities. Arnold has cooperated with the governmental agencies in the Marengo Litigation investigations and proceedings. CODI does not believe that the outcome of the Marengo Litigation will have a material adverse effect on its financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF SECURITIES

Market Information

Our common shares of Trust stock has traded on the New York Stock Exchange (the “NYSE”) under the symbol “CODI” since November 1, 2011. Previously, our stock was traded on the NASDAQ Global Select Market under the symbol “CODI.”

Common Stock Holders

On December 31, 2018 there were 16 registered holders of our common stock. The number of registered holders includes banks and brokers who act as nominees, each of whom may represent more than one shareholder.

COMPARATIVE PERFORMANCE OF SHARES OF TRUST COMMON STOCK

The performance graph shown below compares the change in cumulative total shareholder return on common shares of Trust stock with the NASDAQ Stock Market Index, the NASDAQ Other Finance Index, the NYSE Composite Index and the NYSE Financial Sector Index for the previous five years, through the quarter ended December 31, 2018. The graph sets the beginning value of common shares of Trust stock and the indices at $100, and assumes that all quarterly dividends were reinvested at the time of payment. This graph does not forecast future performance of common shares of Trust stock.

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Data	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Compass Diversified Holdings	$ 218.56	$ 212.14	$ 206.95	$ 194.20
NASDAQ Stock Market Index	$ 188.37	$ 197.75	$ 201.58	$ 212.46
NASDAQ Other Finance Index	$ 115.15	$ 114.94	$ 113.84	$ 117.29
NYSE Financial Sector Index	$ 73.30	$ 75.02	$ 74.39	$ 77.17
NYSE Composite Index	$ 125.52	$ 130.90	$ 127.60	$ 129.23

Data	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Compass Diversified Holdings	$ 206.87	$ 200.67	$ 199.51	$ 198.94
NASDAQ Stock Market Index	$ 219.86	$ 223.71	$ 207.26	$ 224.64
NASDAQ Other Finance Index	$ 121.74	$ 121.61	$ 112.03	$ 115.43
NYSE Financial Sector Index	$ 75.83	$ 76.67	$ 70.13	$ 72.55
NYSE Composite Index	$ 129.94	$ 128.82	$ 116.84	$ 120.93

Data	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Compass Diversified Holdings	$ 198.47	$ 212.87	$ 225.44	$ 234.50
NASDAQ Stock Market Index	$ 218.46	$ 217.24	$ 238.30	$ 241.49
NASDAQ Other Finance Index	$ 114.30	$ 117.57	$ 123.62	$ 133.75
NYSE Financial Sector Index	$ 68.25	$ 67.88	$ 71.76	$ 80.10
NYSE Composite Index	$ 121.70	$ 125.06	$ 127.83	$ 131.82

Data	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Compass Diversified Holdings	$ 219.71	$ 233.46	$ 239.93	$ 231.39
NASDAQ Stock Market Index	$ 265.2	$ 275.46	$ 291.41	$ 309.69
NASDAQ Other Finance Index	$ 138.49	$ 148.74	$ 155.32	$ 164.29
NYSE Financial Sector Index	$ 83.03	$ 85.93	$ 89.52	$ 94.76
NYSE Composite Index	$ 137.02	$ 140.23	$ 145.56	$ 152.71

Data	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Compass Diversified Holdings	$ 225.63	$ 238.79	$ 251	$ 172.49
NASDAQ Stock Market Index	$ 316.87	$ 336.92	$ 360.96	$ 297.66
NASDAQ Other Finance Index	$ 167.07	$ 169.96	$ 169.04	$ 146.99
NYSE Financial Sector Index	$ 90.71	$ 89.54	$ 91.81	$ 79.68
NYSE Composite Index	$ 148.46	$ 149.08	$ 155.98	$ 135.61

Distributions

For the years 2018, 2017 and 2016, we have declared and paid quarterly cash distributions to holders of record of our common shares as follows:

Quarter Ended	Declaration Date	Payment Date	Distribution Per Share	
December 31, 2018	January 3, 2019	January 24, 2019	$	0.36
September 30, 2018	October 4, 2018	October 25, 2018	$	0.36
June 30, 2018	July 5, 2018	July 26, 2018	$	0.36
March 31, 2018	April 5, 2018	April 26, 2018	$	0.36
December 31, 2017	January 4, 2018	January 25, 2018	$	0.36
September 30, 2017	October 5, 2017	October 26, 2017	$	0.36
June 30, 2017	July 6, 2017	July 27, 2017	$	0.36
March 31, 2017	April 6, 2017	April 27, 2017	$	0.36
December 31, 2016	January 5, 2017	January 26, 2017	$	0.36
September 30, 2016	October 6, 2016	October 27, 2016	$	0.36
June 30, 2016	July 7, 2016	July 28, 2016	$	0.36
March 31, 2016	April 7, 2016	April 28, 2016	$	0.36

We currently intend to continue to declare and pay regular quarterly cash distributions on all outstanding common shares through fiscal year 2019. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” in Part II, Item 7.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by Issuer and Affiliated Purchasers

None.

ITEM 6. – SELECTED FINANCIAL DATA

The following table sets forth selected historical and other data of the Company and should be read in conjunction with the more detailed consolidated financial statements included elsewhere in this Annual Report. Selected financial data below includes the results of operations, cash flow and balance sheet data of the Company for the years ended December 31, 2018, 2017, 2016, 2015, and 2014.

The Company sold 5,800,238 shares of FOX during FOX's initial public offering in August 2013, and an additional 4,466,569 shares during a FOX secondary offering in July 2014, resulting in the Company holding approximately 41% ownership interest in FOX at December 31, 2015 and 2014. Effective July 11, 2014, the date that the Company's ownership interest in FOX fell below 50%, the Company began accounting for the investment in FOX as an equity method investment at fair value. FOX's results of operations and cash flows are included in the consolidated results of operations and cash flows of the Company from the date of acquisition through July 10, 2014, the date at which the Company began accounting for the investment in FOX using the equity method of accounting. In March 2017, we sold our remaining ownership interest in FOX.

The operating results for Tridien in 2016, 2015, and 2014 are reflected as discontinued operations in the table below and are not included in continuing operations. The operating results of CamelBak and American Furniture in 2015 and 2014 are reflected as discontinued operations and are not included in the continuing operations data below. Data included below only includes activity in our operating subsidiaries from their respective dates of acquisition.

	Year ended December 31,				
(in thousands, except per share data)	2018 [1]	2017 [1]	2016 [1]	2015 [1]	2014 [1]
Statements of Operations Data:					
Net sales	$1,691,673	$1,269,729	$978,309	$727,978	$636,675
Gross profit	574,188	447,709	326,570	240,736	205,017
Management fees	44,294	32,693	29,406	25,658	21,872
Impairment expense/ loss on disposal of assets	—	17,325	25,204	—	—
Operating income	69,318	27,204	19,061	49,918	31,892
Gain on deconsolidation of subsidiary	—	—	—	—	264,325
Income (loss) from continuing operations	(3,048)	33,272	53,749	8,991	270,077
Income and gain from discontinued operations	1,258	340	2,781	156,779	21,078
Net income (loss)	$(1,790)	$33,612	$56,530	$165,770	$291,155
Net income from continuing operations—noncontrolling interest	3,912	5,621	1,961	5,133	11,661
Net income (loss) from discontinued operations—noncontrolling interest	—	—	(116)	(1,201)	659
Net income (loss) attributable to Holdings	$(5,702)	$27,991	$54,685	$161,838	$278,835
Basic and fully diluted income (loss) per share attributable to Holdings:					
Continuing operations	$(0.44)	$(0.45)	$0.46	$(0.30)	$4.98
Discontinued operations	0.02	0.01	0.05	2.91	0.40
Basic and fully diluted income (loss) per share attributable to Holdings	$(0.42)	$(0.44)	$0.51	$2.61	$5.38
Cash distribution declared per common share	$1.44	$1.44	$1.44	$1.44	$1.44
Cash Flow Data:					
Depreciation and amortization	$120,575	$110,051	$85,608	$53,075	$39,751
Cash provided by operating activities	114,452	81,771	111,372	84,548	70,695
Acquisitions of businesses	(552,062)	(164,950)	(536,175)	(130,292)	(474,657)
Cash (used in) provided by investing activities	(604,080)	(77,278)	(363,021)	233,880	(424,753)

	Year ended December 31,				
(in thousands, except per share data)	2018 [(1)]	2017 [(1)]	2016 [(1)]	2015 [(1)]	2014 [(1)]
Net amounts borrowed (repaid)	121,028	31,915	248,058	(172,975)	250,725
Cash (used in) provided by financing activities	500,111	(2,588)	208,726	(254,357)	265,487
Balance Sheet Data:					
Current assets	$681,185	$526,818	$452,819	$291,363	$320,799
Total assets	2,372,335	1,820,303	1,777,155	1,421,042	1,547,430
Current liabilities	259,280	212,193	202,521	116,479	141,231
Long-term debt	1,098,871	584,347	551,652	308,639	485,547
Noncontrolling interests	59,970	52,791	38,139	47,135	40,903
Shareholders’ equity attributable to Holdings	859,372	873,208	856,405	826,084	767,431

(1) Includes the effect of material business acquisitions as follows:

- The year ended December 31, 2018 includes the operating results of Foam Fabricators, acquired on February 15, 2018, and Rimports, acquired by our Sterno subsidiary on February 26, 2018.
- The year ended December 31, 2017 includes the operating results of Velocity Outdoor, acquired on June 2, 2017.
- The year ended December 31, 2016 includes the operating results of 5.11 Tactical, acquired on August 31, 2016.
- The year ended December 31, 2015 includes the operating results of Manitoba Harvest, acquired on July 10, 2015.
- The year ended December 31, 2014 includes the operating results of Clean Earth, acquired on August 7, 2014 and Sterno, acquired on October 10, 2014.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Item 7 contains forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K are subject to a number of risks and uncertainties, some of which are beyond our control. Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ, including those discussed in the sections entitled "Forward-Looking Statements" and "Risk Factors" included elsewhere in this Annual Report.

Overview

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

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

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

- North American base of operations;
- stable and growing earnings and cash flow;
- maintains a significant market share in defensible industry niche (i.e., has a "reason to exist");
- solid and proven management team with meaningful incentives;
- low technological and/or product obsolescence risk; and
- a diversified customer and supplier base.

Our management team's strategy for our subsidiaries involves:

- utilizing structured incentive compensation programs tailored to each business in order 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, including independent directors, to supplement management in their development and implementation of strategic goals and objectives.

Based on the experience of our management team and its ability to identify and negotiate acquisitions, we believe we are well- positioned to acquire additional attractive businesses. Our management team has a large network of approximately 2,000 deal intermediaries to whom it actively markets and who we expect to expose us to potential acquisitions. Through this network, as well as our management team's active proprietary transaction sourcing efforts, we typically have a substantial pipeline of potential acquisition targets. In consummating transactions, our management team has, in the past, been able to successfully navigate complex situations surrounding acquisitions, including corporate spin-offs, transitions of family-owned businesses, management buy-outs and reorganizations. We believe the flexibility, creativity, experience and expertise of our management team in structuring transactions provides us with a strategic advantage by allowing us to consider non-traditional and complex transactions tailored to fit a specific acquisition target.

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

Initial public offering and Company formation

On May 16, 2006, we completed our initial public offering of 13,500,000 shares of the Trust at an offering price of $15.00 per share (the "IPO"). Subsequent to the IPO the Company's board of directors engaged our Manager to externally manage the day-to-day operations and affairs of the Company, oversee the management and operations of the businesses and to perform those services customarily performed by executive officers of a public company.

From May 16, 2006 through December 31, 2018, we purchased nineteen businesses (each of our businesses is treated as a separate operating segment) and disposed of seven businesses. The tables below reflect summarized information relating to our acquisitions and dispositions from the date of our IPO through December 31, 2018 (in thousands):

Acquisitions

			Ownership Interest - December 31, 2018	
Business	Acquisition Date	CODI Purchase Price	Primary	Diluted
CBS Holdings (Staffmark) [(1)]	May 16, 2006	$183,200	N/a	N/a
Crosman [(4)]	May 16, 2006	$72,600	N/a	N/a
Advanced Circuits [(3)]	May 16, 2006	$81,000	69.4%	69.2%
Silvue	May 16, 2006	$36,000	N/a	N/a
Tridien [(3)]	August 1, 2006	$31,000	N/a	N/a
Aeroglide	February 28, 2007	$58,200	N/a	N/a
Halo	February 28, 2007	$62,300	N/a	N/a
American Furniture	August 31, 2007	$97,000	N/a	N/a
FOX [(2)]	January 4, 2008	$80,400	N/a	N/a
Liberty Safe [(3)]	March 31, 2010	$70,200	88.6%	85.2%
Ergobaby [(3)]	September 16, 2010	$85,200	81.9%	76.4%
CamelBak	August 24, 2011	$251,400	N/a	N/a
Arnold Magnetics	March 5, 2012	$128,800	96.7%	79.4%
Clean Earth [(3)]	August 7, 2014	$251,400	97.5%	79.8%
Sterno [(3) (4)]	October 10, 2014	$314,400	100.0%	88.9%
Manitoba Harvest [(3)]	July 10, 2015	$102,700	76.6%	68.1%
5.11	August 31, 2016	$408,200	97.5%	88.7%
Velocity Outdoor [(3) (5)]	June 2, 2017	$150,400	99.2%	91%
Foam Fabricators	February 15, 2018	$253,400	100%	91.5%

(1) The total purchase price for CBS Holdings includes the acquisition of Staffmark Investment LLC in January 2008 for a purchase price of $128.6 million. The Company renamed its CBS Personnel business Staffmark subsequent to the acquisition.

(2) FOX completed an IPO of its common stock in August 2013 in which we sold a 22% interest in FOX, reducing our ownership interest to 53%. In July 2014, FOX completed a secondary offering in which we sold a 12% interest in FOX, reducing our ownership interest to 41% and resulting in the deconsolidation of FOX from our financial results. We subsequently sold our remaining shares of FOX and now hold no ownership interest in FOX. We recognized total net proceeds from the sale of our FOX shares of approximately $465.1 million.

(3) The total purchase price does not reflect add-on acquisitions made by our businesses subsequent to their purchase by CODI unless indicated.

(4) The total purchase price of Sterno includes the acquisition of Rimports, Inc. in February 2018 for a purchase price of $154.4 million.

(5) Velocity Outdoor (formerly "Crosman Corp.") was purchased by the Company in May 2006 and subsequently sold in January 2007. We reacquired Velocity Outdoor in June 2017.

Dispositions

Business	Date of Disposition	Sale Price	CODI Proceeds from Disposition (1)	Gain (loss) recognized (2)
Crosman	January 5, 2007	$143,000	$ 109,600	$ 35,800
Aeroglide	June 24, 2008	$95,000	$ 78,500	$ 33,700
Silvue	June 25, 2008	$95,000	$ 63,600	$ 39,600
Staffmark	October 17, 2011	$295,000	$ 216,000	$ 88,500
Halo	May 1, 2012	$76,500	$ 66,500	$ (300)
CamelBak	August 3, 2015	$412,500	$ 367,800	$ 158,300
American Furniture	October 5, 2015	$24,100	$ 23,500	$ (14,100)
Tridien	September 21, 2016	$25,000	$ 22,700	$ 1,700
FOX	*	*	$ 526,600	$ 428,700

(1) CODI portion of the net proceeds from disposition includes debt and equity proceeds and reflects the accounting for the redemption of the sold business's minority shareholders and transaction expenses.
(2) Gain (loss) recognized on sale of our businesses is calculated by deducting our total invested capital from the net sale proceeds received.

* We made loans to and purchased a controlling interest in FOX on January 4, 2008, for approximately $80.4 million. In August 2013, FOX completed an initial public offering of its common stock. As a result of the initial public offering, our ownership interest in FOX was reduced to approximately 53.9%. No gain was reflected as a result of the sale of our FOX shares in the initial public offering because our majority classification of FOX did not change. FOX used a portion of their net proceeds received from the sale of their shares as well as proceeds from a new external FOX credit facility to repay $61.5 million in outstanding indebtedness to us under their existing credit facility with us. In July 2014, through a secondary offering, our ownership in FOX was lowered from approximately 53% to approximately 41%, and as a result we deconsolidated FOX as of July 10, 2014. In March and August 2016, through two more secondary offerings and a share repurchase by FOX, our ownership in the outstanding common stock of FOX was further lowered to approximately 23% as of September 30, 2016. In November 2016, through another secondary offering, our ownership in the outstanding common stock of FOX was further lowered to approximately 14%. On March 13, 2017, FOX closed on a secondary public offering of 5,108,718 shares of FOX common stock held by CODI, which represented CODI's remaining investment in FOX. We recognized total net proceeds from the sales of our FOX shares of approximately $465.1 million, plus proceeds from the repayment of the FOX credit facility of $61.5 million upon completion of their initial public offering, and a total gain of $428.7 million.

We are dependent on the earnings of, and cash receipts from, the businesses that we own in order to meet our corporate overhead and management fee expenses and to pay distributions. The earnings and distributions of our businesses are generally lowest in the first quarter, and strongest in the third and fourth quarter, of each fiscal year. These earnings and distributions, net of any non-controlling interest in these businesses, are available to:

- meet capital expenditure requirements, management fees and corporate overhead charges;
- fund distributions from the businesses to the Company; and
- be distributed by the Trust to shareholders.

2018 Highlights and Recent Events

Acquisition of Foam Fabricators

On February 15, 2018, the Company, through a wholly owned subsidiary FFI Compass, Inc., acquired all of the issued and outstanding capital stock of Foam Fabricators, Inc., a Delaware corporation (“Foam Fabricators”), for a purchase price of approximately $253.4 million. Foam Fabricators is a leading designer and manufacturer of custom molded protective foam solutions and OEM components made from expanded polymers such as expanded polystyrene and expanded polypropylene. 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 products and others. We funded our acquisition of Foam Fabricators with a draw on our 2014 Revolving Credit Facility.

Acquisition of Rimports

On February 26, 2018, our Sterno subsidiary acquired all of the issued and outstanding capital stock of Rimports, Inc.,, pursuant to a Stock Purchase Agreement, dated January 23, 2018. Sterno purchased a 100% controlling interest in Rimports. 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. The purchase price, net of transaction costs, was approximately $154.4 million, subject to any working capital adjustment. 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. At December 31, 2018, the earn-out was not expected to be paid. Sterno funded the acquisition through their intercompany credit facility with the Company.

Acquisition of ESMI

On May 23, 2018, Clean Earth acquired all of the outstanding capital stock of Environmental Soil Management, Inc.(“ESMI”), located in Fort Edward, New York and Loudon, New Hampshire. The acquisition provided Clean Earth the opportunity to geographically expand their soil and hazardous waste solutions in the New York and New England market. The purchase price was approximately $31.0 million.

Acquisition of Ravin

On September 4, 2018, Velocity Outdoor (formerly "Crosman Corp.") acquired all of the outstanding membership interests in Ravin 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 as of December 31, 2018. Headquartered in Superior, Wisconsin, Ravin Crossbows is a leading designer, 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. The acquisition of Ravin positions Velocity Outdoor to more fully capitalize on the sizeable crossbow market, further diversify its customer base and take advantage of the product and market expertise inside of Ravin.

Trust Preferred Share Issuance

On March 13, 2018, the Trust issued 4,000,000 Series B Preferred Shares 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. Distributions on the Series B Preferred Shares are cumulative.

Senior Notes and 2018 Credit Facility

On April 18, 2018, we consummated the issuance and sale of $400.0 million aggregate principal amount of our 8.000% Senior Notes due 2026 (the “Notes” or "Senior Notes") offered pursuant to a private offering. We used the net proceeds from the sale of the Notes to repay debt under our existing credit facilities in connection with a concurrent refinancing of our 2014 Credit Facility. 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, beginning on November 1, 2018. The Notes are general senior unsecured obligations and are not guaranteed by our subsidiaries. Concurrent with the issuance of the Notes, we 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 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, and (ii) a $500 million term loan (the “2018 Term Loan”). The 2018 Term Loan was issued at an original issuance discount of 99.75%. We used the proceeds from the 2018 Credit Facility and the proceeds from the Notes offering to pay all amounts outstanding under our existing credit agreement and to pay the fees, original issue discount and expenses incurred in connection with the 2018 Credit Facility and Notes.

2018 Distributions

Common shares - For the 2018 fiscal year we declared distributions to our common shareholders totaling $1.44 per share.

Preferred shares - For the 2018 fiscal year we declared distributions to our preferred shareholders totaling $1.8125 per share on our Series A Preferred Shares and $1.724375 on our Series B Preferred Shares.

Subsequent Event

Manitoba Harvest

On February 19, 2019, we entered into a definitive agreement (the "Agreement") with Tilray, Inc. ("Tilray") and a wholly-owned subsidiary of Tilray, 1197879 B.C. Ltd. (“Tilray Subco”), to sell to Tilray, Inc., through Tilray Subco, all of the issued and outstanding securities of Manitoba Harvest for total consideration of up to C$419 million. Subject to certain customary adjustments, the shareholders of Manitoba Harvest, including the Company, may 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 (“Common Stock”) to the Common Holders on the closing date of the sale (the “Closing Date Consideration”), (ii) C$50 million in cash and C$42.5 million in Common Stock to the Common Holders on the date that is six months after the closing date of the Arrangement (the “Deferred Consideration”) and (iii) C$49 million in Common Stock to the Common Holders, which amount may be reduced, potentially to zero, if Manitoba Harvest fails to attain 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 will be reduced by the amount of the net indebtedness of Manitoba Harvest on the closing date and transaction expenses expected to be approximately $5 million. The Common Stock consideration is expected to be issued in reliance on the exemption from the registration requirements of the U.S. Securities Act and pursuant to exemptions from applicable securities laws of any state of the United States, such that any shares of Common Stock received by the Common Holders will be freely tradeable. The sale of Manitoba Harvest will occur pursuant to a plan of arrangement under the Business Operations Act (British Columbia). The completion of the plan of arrangement was subject to approval by the British Columbia Supreme Court, which occurred on February 21, 2019. The sale is expected to close as soon as practicable following receipt of court approval.

2019 Outlook and Significant Trends

During 2018, the middle market continued 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. We remain focused on marketing the Company’s attractive ownership and management attributes to potential sellers of middle market businesses and intermediaries. In addition, we continue to pursue opportunities for add-on acquisitions by certain of our existing subsidiary companies, which can be particularly attractive from a strategic perspective.

Business Outlook

For 2019, we anticipate our niche industrial companies, combined as a whole, will continue to grow revenue and earnings as a result of the overall health of the economy. Our branded consumer companies, combined as a whole, may be impacted in 2019 by the continued weakening in the U.S. retail landscape, specifically, lower consumer foot traffic in brick and mortar retail, and the related shift to more online shopping. We believe our branded consumer companies’ combined as a whole, with their strong positions in their respective markets and powerful brands, remain well positioned to grow revenue and earnings in 2019, notwithstanding this difficult landscape.

The areas of focus for 2019, which are generally applicable to each of our businesses, include:

- Achieving sales growth through a combination of new product development, increasing distribution and international expansion;
- Taking market share, where possible, in each of our niche market leading companies, generally at the expense of less well capitalized competitors;
- Striving for excellence in supply chain management, manufacturing and technological capabilities;
- Continuing to pursue expense reduction and cost savings in lower margin business lines or in response to lower production volume;

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- Continuing to grow through disciplined, strategic acquisitions and rigorous integration processes; and
- Driving free cash flow through increased net income and effective working capital management, enabling continued investment in our businesses, strategic acquisitions, and distributions to our shareholders.

Results of Operations

The following discussion reflects a comparison of the historical results of operations of our consolidated business for the years ended December 31, 2018, 2017 and 2016, 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.

We acquired Foam Fabricators in February 2018, Velocity Outdoor in June 2017, 5.11 in August 2016 and our Sterno business acquired Rimports in February 2018. In the following results of operations, we provide (i) our actual Consolidated Results of Operations for the years ended December 31, 2018, 2017 and 2016, which includes the historical results of operations of each of our businesses (operating segments) from the date of acquisition in accordance with generally accepted accounting principles in the United States ("GAAP") and (ii) comparative historical components of the results of operations for each of our businesses on a stand-alone basis (“Results of Operations – Our Businesses”), for each of the years ended December 31, 2018, 2017 and 2016, where all years presented include relevant pro-forma adjustments for pre-acquisition periods and explanations where applicable. 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, 2017. The historical operating results of Rimports have been added to the previously reported Sterno results of operations for the year ended December 31, 2017 and the Sterno results of operations for the 2018 period prior to acquisition by Sterno. For the 2017 acquisition of Velocity Outdoor and the 2016 acquisition of 5.11, the pro forma results of operations have been prepared as if we purchased these businesses on January 1, 2016. We believe this presentation enhances the discussion and provides a more meaningful comparison of operating results. The following operating results of our businesses are not necessarily indicative of the results to be expected for a full year, going forward.

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."

Consolidated Results of Operations — Compass Diversified Holdings

	Year Ended December 31,		
	2018	2017	2016
Net revenues	$1,691,673	$1,269,729	$978,309
Cost of revenues	1,117,485	822,020	651,739
Gross profit	574,188	447,709	326,570
Selling, general and administrative expense	392,501	318,484	217,830
Management fees	44,294	32,693	29,406
Amortization of intangibles	68,076	52,003	35,069
Asset impairment / Loss on disposal of assets	—	17,325	25,204
Operating income	69,317	27,204	19,061
Interest expense	(55,577)	(27,623)	(24,651)
Amortization of debt issuance costs	(3,905)	(4,002)	(2,763)
Other income (expense)	(6,335)	(2,986)	71,571
Income (loss) from continuing operations before income taxes	3,500	(7,407)	63,218
Provision (benefit) for income taxes	6,548	(40,679)	9,469
Income (loss) from continuing operations	$(3,048)	$33,272	$53,749

Year ended December 31, 2018 compared to the Year ended December 31, 2017

Net revenues

Net revenues for the year ended December 31, 2018 increased by approximately $421.9 million or 33.2% compared to the corresponding period in 2017. Our acquisitions of Foam Fabricators and Rimports in February 2018 contributed $113.4 million and $145.6 million, respectively, to the increase in revenue, while our acquisition of Velocity Outdoor in June 2017 contributed $52.9 million to the increase, reflecting a full year of ownership compared to the corresponding period in 2017, as well as the acquisition of Ravin in September 2018. We also saw notable sales increases at Clean

Earth ($55.7 million), 5.11 ($37.9 million), Manitoba ($11.7 million), Arnold ($12.3 million) and our legacy Sterno business exclusive of Rimports ($9.4 million). These increases in revenue were partially offset by decreases in net revenue at Liberty ($9.3 million) and Ergo ($12.4 million) in 2018 as compared to 2017. Refer to "Results of Operations - Our Businesses" for a more detailed analysis of net revenue 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 expect such earnings to be minimal. Our investment in our businesses is typically in the form of loans from the Company to such businesses, as well as equity interests in those businesses. Cash flows coming to the Trust and the Company are the result of interest payments on those loans, amortization of those loans and, in some cases, dividends on our equity ownership. However, on a consolidated basis these items will be eliminated.

Cost of revenues

On a consolidated basis, cost of revenues increased approximately $295.5 million during the year ended December 31, 2018, compared to the corresponding period in 2017. Our acquisitions of Foam Fabricators and Rimports in February 2018 contributed $82.6 million and $110.5 million, respectively, to the increase in cost of revenues, while our acquisition of Velocity Outdoor in June 2017 contributed $35.3 million to the increase, reflecting a full year of ownership compared to the corresponding period in 2017, as well as the acquisition of Ravin in September 2018. Clean Earth's cost of revenue increased $41.4 million, in line with the increase in revenues during 2018, while our legacy Sterno business exclusive of Rimports had an increase in cost of revenues of $9.3 million, Manitoba Harvest ($8.0 million) and Arnold had an increase in cost of revenues of $8.6 million, both in line with the increase in revenues at these entities. These increases were offset by decreases in cost of revenues at other operating segments, particularly Ergo ($3.1 million decrease) and Liberty ($3.3 million decrease).

Gross profit as a percentage of net revenues was approximately 33.9% in year ended December 31, 2018 compared to 35.3% in 2017. Refer to "Results of Operations - Our Businesses" for a more detailed analysis of gross profit by business segment.

Selling, general and administrative expense

Consolidated selling, general and administrative expense increased approximately $74.0 million during the year ended December 31, 2018, compared to the corresponding period in 2017. The increase in expenses in 2018 compared to 2017 is principally the result of the acquisition of Foam Fabricators ($12.3 million including $1.6 million in acquisition costs), Rimports ($4.0 million, including $0.6 million in acquisition costs) and Velocity Outdoor ($10.4 million) reflecting a full year of ownership compared to the corresponding period in 2017, as well as the acquisition of Ravin in September 2018 and acquisition costs related to Ravin of $1.4 million. We also saw notable increases in selling, general and administrative year-over-year at 5.11 ($22.2 million) and Clean Earth ($10.8 million). Refer to "Results of Operations - Our Businesses" for a more detailed analysis of selling, general and administrative expense by business segment. At the corporate level, general and administrative expense increased from $12.7 million in 2017 to $14.3 million in 2018, primarily due to increased professional fees associated with governance and compliance costs related to the implementation of new accounting standards.

Fees to manager

Pursuant to the Management Services Agreement, we pay CGM a quarterly management fee equal to 0.5% (2.0% annually) of our consolidated adjusted net assets. We accrue for the management fee on a quarterly basis. For the year ended December 31, 2018, we incurred approximately $44.3 million in expense for these fees compared to $32.7 million for the corresponding period in 2017. The $11.6 million increase in the year ended December 31, 2018 is principally due to the increase in consolidated net assets resulting from the acquisition of Foam Fabricators in February 2018, and the add-on acquisitions by our businesses that occurred throughout 2018.

Amortization expense

Amortization expense for the year ended December 31, 2018 increased $16.1 million to $68.1 million as compared to the prior year, primarily as a result of the acquisitions of Foam Fabricators and Rimports in February 2018.

Impairment expense

Manitoba Harvest performed an interim impairment test of goodwill and its indefinite lived trade name in the fourth quarter of 2017, which resulted in the recording of impairment expense of $8.5 million. $6.2 million of the impairment expense related to goodwill, and $2.3 million of the impairment expense related to the Manitoba Harvest trade name.

Interest Expense

We recorded interest expense totaling $55.6 million for the year ended December 31, 2018 compared to $27.6 million for the comparable period in 2017, an increase of $28.0 million. The increase in interest expense primarily reflects the interest associated with the issuance of our Senior Notes in April 2018 and the increase in the amount outstanding on our revolving credit facility in the current year. We recorded $22.5 million in interest expense for the period from the date of issuance through December 31, 2018 related to the Senior Notes. The average amount outstanding on our revolving credit facility in 2017 was $33.6 million, while the average amount outstanding during 2018 was $205.1 million as a result of our add-on acquisitions that occurred in 2018. Our interest expense also reflects the effect of the unrealized gains or losses on our interest rate swap. In 2018 and 2017, we recognized unrealized gains of $2.3 million and $0.6 million, respectively, which reduced our interest expense.

Income Taxes

We had income tax expense of $6.5 million with an effective income tax rate of 187.1% during the year ended December 31, 2018 compared to income tax benefit of $40.7 million with an effective income tax rate of (549.2%) during the same period in 2017. The effective tax rate for the years ended December 31, 2018 and 2017 includes a loss at our parent company, which is taxed as a partnership. In December 2017, the U.S. government enacted the Tax Cuts and Jobs Act of 2017 (the "Tax Act") which made broad and complex changes to the U.S. tax code. Among other changes of the Tax Act, the tax rate on corporations was reduced from from 35% to 21%; a limitation on the deduction of interest expense was enacted, certain tangible property acquired after September 2017 will qualify for 100% expensing, U.S federal income tax on foreign earnings was eliminated (subject to certain exceptions) and a new base erosion anti-tax abuse tax were added. Although the Company is treated as a partnership for U.S. federal income tax purposes, each of our businesses was affected by the Tax Act, and the resulting impact significantly affected the calculation of our year-to-date consolidated income tax provision in 2018 and 2017. Additionally, in the current year, the effect of the recapitalization at Sterno and state income taxes as well as the geographic mix of income had a significant impact on our effective tax rate. In the prior year, the impairment expense at our Arnold business and non-deductible costs at the corporate level, including the effect of the loss on our equity investment of FOX prior to the sale of our remaining FOX shares in the first quarter of 2017, account for the majority of the remaining difference in our effective income tax rates year over year.

Year ended December 31, 2017 compared to the Year ended December 31, 2016

Net revenues

On a consolidated basis, net revenues for the year ended December 31, 2017 increased by approximately $291.4 million or 29.8% compared to the corresponding period in 2016. Velocity Outdoor sales since the date of acquisition were $78.4 million, while $200.0 million of the increase reflects a full year of net sales at 5.11 in 2017 as compared to 2016. We also saw notable sales increases at Clean Earth ($22.3 million, primarily due to two acquisitions in 2016 and one acquisition in 2017) and Sterno ($7.3 million, primarily due to the acquisition of Sterno Home in January 2016), offset by decreases in sales at Liberty ($11.9 million) and Manitoba Harvest ($3.6 million) in 2017 as compared to 2016. Refer to "Results of Operations - Our Businesses" 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 expect such earnings to be minimal. Our investment in our businesses is typically in the form of loans from the Company to such businesses, as well as equity interests in those businesses. Cash flows coming to the Trust and the Company are the result of interest payments on those loans, amortization of those loans and, in some cases, dividends on our equity ownership. However, on a consolidated basis these items will be eliminated.

Cost of revenues

On a consolidated basis, cost of revenues increased approximately $170.3 million during the year ended December 31, 2017, compared to the corresponding period in 2016. Velocity cost of sales since the date of acquisition were $61.7 million, while 5.11 Tactical accounted for $103.5 million of the increase, reflecting a full year of ownership in 2017. The remaining amount of the increase was primarily due to add-on acquisitions made during 2016 at Clean Earth, Sterno and Ergobaby. Gross profit as a percentage of net revenues was approximately 35.3% in year ended December 31, 2017 compared to 33.4% in 2016. Refer to "Results of Operations - Our Businesses" for a more detailed analysis of gross profit by business segment.

Selling, general and administrative expense
Consolidated selling, general and administrative expense increased approximately $100.7 million during the year ended December 31, 2017, compared to the corresponding period in 2016. The increase in expenses in 2017 compared to 2016 is principally the result of the acquisition of Velocity in June 2017 ($12.3 million in selling, general and administrative expenses, including $1.8 million in acquisition costs for Velocity and the add-on acquisition of Lasermax in July 2017), and a full year of ownership of 5.11 ($125.0 million in selling, general and administrative expenses in 2017 compared to $38.1 million in 2016). Refer to "Results of Operations - Our Businesses" for a more detailed analysis of selling, general and administrative expense by business segment. At the corporate level, general and administrative expense increased from $12.3 million in 2016 to $12.7 million in 2017, primarily due to increased professional fees associated with compliance costs.
Fees to manager
Pursuant to the Management Services Agreement, we pay CGM a quarterly management fee equal to 0.5% (2.0% annually) of our consolidated adjusted net assets. We accrue for the management fee on a quarterly basis. For the year ended December 31, 2017, we incurred approximately $32.7 million in expense for these fees compared to $29.4 million for the corresponding period in 2016. The $3.3 million increase in the year ended December 31, 2017 is principally due to the increase in consolidated net assets resulting from the acquisition of Velocity in June 2017, 5.11 in August 2016, and the add-on acquisitions by our businesses that occurred throughout 2016.
Amortization expense
Amortization expense for the year ended December 31, 2017 increased $16.9 million to $52.0 million as compared to the prior year, primarily as a result of the acquisition of Velocity in June 2017 and 5.11 in August 2016.
Impairment expense and Loss on disposal of assets
Manitoba Harvest performed an interim impairment test of goodwill and its indefinite lived trade name in the fourth quarter of 2017, which resulted in the recording of preliminary impairment expense of $8.5 million. $6.2 million of the impairment expense related to goodwill, and $2.3 million of the impairment expense related to the Manitoba Harvest trade name.
Arnold performed an interim impairment test at each of its reporting units in the fourth quarter of 2016, which resulted in the recording of preliminary impairment expense of the PMAG reporting unit of $16.0 million as of December 31, 2016. In the first quarter of 2017, Arnold completed the impairment testing of the PMAG reporting unit and recorded an additional $8.9 million impairment expense based on the results of the Step 2 impairment testing.
Interest expense
We recorded interest expense totaling $27.6 million in the year ended December 31, 2017, an increase of $3.0 million compared to the prior year. The increase was a result of a full year of interest on our 2016 Incremental Term Loan, which we entered into in August 2016, as well as an increase in the unused fee we pay on our Revolving Credit Facility. The average amount outstanding on our revolving credit facility in 2017 was $29.1 million, while the average outstanding amount in 2016 was $27.4 million.
Income Taxes
We recorded an income tax benefit of $40.7 million with an effective tax rate of (549.2%) for the year ended December 31, 2017 and $9.5 million of income tax expense with an effective tax rate of 15% for the year ended December 31, 2016. In December 2017, the U.S. government enacted comprehensive tax legislation which made broad changes to the U.S. tax code, including a reduction in the tax rate on corporations from 35% to 21%, a limitation on the deduction of interest expense, U.S. federal income taxes on foreign earnings was eliminated (subject to several exceptions) and new provisions designed to tax currently global intangible low taxed income and a new base erosion anti-abuse tax were added. Although the Trust and the Company are treated as partnerships for U.S. income tax purposes and are therefore not subject to net income taxes, we consolidate the results of the businesses in which we own or control more than a 50% share of the voting interest. The income tax benefit in 2017 reflects the accounting for the effect of the changes resulting from the new tax legislation at our consolidated subsidiaries.
Results of Operations — Our Businesses
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

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capitalize on a valuable brand name in their respective market sector. We believe that our branded consumer businesses are leaders in their particular category. Niche industrial businesses are characterized as those businesses that focus on manufacturing and selling particular products or services within a specific market sector. We believe that our niche industrial businesses are leaders in their specific market sector.

Branded Consumer Businesses

5.11

Overview

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.

Results of Operations

In the following results of operations, we provide (i) the actual consolidated results of operations for 5.11 for the years ended December 31, 2018 and 2017, and (ii) comparative results of operations for 5.11 for the year ended December 31, 2016, as if we had acquired the business on January 1, 2016, including relevant pro forma adjustments for the pre-acquisition period and explanations where applicable.

	Year ended December 31,					
(in thousands)	2018		2017		2016 (Pro forma)	
Net sales	$347,921	100.0 %	$309,999	100.0 %	$295,256	100.0 %
Gross profit [1]	$160,798	46.2 %	$127,708	41.2 %	$112,800	38.2 %
Selling, general and administrative expense [2]	$147,137	42.3 %	$124,970	40.3 %	$107,149	36.3 %
Operating income (loss)	$3,916	1.1 %	$(7,121)	(2.3)%	$(3,852)	(1.3)%

Pro forma results of operations for 5.11 for the annual period ended December 31, 2016 include the following pro forma adjustments applied to historical results:

(1) Gross profit was increased by $0.1 million for the year ended December 31, 2016 to reflect the increase in the depreciable lives for machinery and equipment.

(2) Selling, general and administrative expense was increased by approximately $0.9 million in the year ended December 31, 2016 related to stock compensation expense for stock options that were granted to 5.11 employees as a result of the acquisition.

Year ended December 31, 2018 compared to the Year ended December 31, 2017

Net sales

Net sales for the year ended December 31, 2018 were $347.9 million, an increase of $37.9 million, or 12.2%, compared to the same period in 2017. This increase is due primarily to retail and e-commerce sales growth of $25.4 million or 51%, driven by growing demand in direct to consumer channels. Retail sales grew largely due to eighteen new retail store openings since December 2017 (bringing the total store count to forty-five as of December 31, 2018). The increase in net sales for the year ended December 31, 2018 as compared to the corresponding period in the prior year was offset by a $17.6 million decline in Direct-to-Agency sales. Direct-to-agency sales represent large contracts consisting primarily of SMU (special make-up) custom uniform product designed for large law enforcement divisions. The Direct-to-agency contract process is driven primarily by lengthy governmental approval processes and can take upwards of 18 to 36 months, therefore revenue streams are not consistent year-over-year.

Gross Profit

Gross profit as a percentage of net sales increased from 41.2% in the year ended December 31, 2017 to 46.2% in the year ended December 31, 2018. Cost of sales for the year ended December 31, 2017 included $21.7 million in expense related to a $39.1 million inventory step-up resulting from the acquisition purchase price allocation. The total inventory

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step-up amount of $39.1 million was expensed to cost of goods sold over the expected turns of 5.11's inventory. Excluding the effect of the expense associated with the inventory step-up in 2017, gross profit for the year ended December 31, 2017 was 48.2%. The decrease in gross profit percentage in the year ended December 31, 2018 was primarily due to a higher level of chargebacks incurred and discretionary discounts granted to customers while working through the backlog associated with challenges experienced while implementing a new Enterprise Resource Planning (ERP) system.

Selling, general and administrative expense

Selling, general and administrative expenses for the year ended December 31, 2018 increased to $147.1 million or 42.3% of net sales compared to $125.0 million or 40.3% of net sales in the same period in 2017. This increase in selling, general and administrative expense as a percentage of net sales was primarily due to eighteen new retail stores that were not open in the prior comparable period, higher temporary labor costs associated with the ERP implementation, higher software maintenance costs related to the ERP system and costs to move into 5.11’s new Manteca warehouse facility, which occurred in the second quarter of 2018.

Income (loss) from operations

Income from operations for the year ended December 31, 2018 was $3.9 million, an increase of $11.0 million when compared to the same period in 2017, primarily due to the amortization of the inventory step-up resulting from the purchase price allocation and the increase in selling, general and administrative expense as noted above.

Year ended December 31, 2017 compared to Pro Forma Year ended December 31, 2016

Net sales

Net sales for the year ended December 31, 2017 were $310.0 million, an increase of $14.7 million, or 5.0%, compared to the same period in 2016. This increase is due primarily to an $8.2 million increase in international direct-to-agency business, and increased retail and e-commerce sales. Direct-to-agency sales represent large non-recurring contracts consisting primarily of SMU (special make-up) custom uniform product designed for large law enforcement divisions. Retail and e-commerce sales grew $16.3 million, or 50%, driven by growing demand in direct to consumer channels. Retail sales grew largely due to seventeen new retail store openings in 2017 (bringing the total store count to 27 as of December 31, 2017). The consumer wholesale channel experienced a $4.6 million decrease due primarily to the bankruptcy of a large outdoor retail customer. 5.11 implemented a new Enterprise Resource Planning (ERP) system and as part of the go-live process 5.11 shut down its warehouse as planned on September 28, 2017 to begin the cut-over activities. Upon reopening the warehouse on October 9, 2017, 5.11 encountered shipping challenges due to the ERP system not functioning as designed. This resulted in lost orders and an order backlog that reached over $20.0 million as of December 31, 2017.

Gross Profit

Gross profit as a percentage of net sales increased from 38.2% in the year ended December 31, 2016 to 41.2% in the year ended December 31, 2017. Cost of sales for the year ended December 31, 2017 includes $21.7 million in expense related to a $39.1 million inventory step-up resulting from the acquisition purchase price allocation, while cost of sales for the year ended December 31, 2016 includes $17.4 million in expense related to the purchase price allocation. The total inventory step-up amount of $39.1 million was expensed to cost of goods sold over the expected turns of 5.11's inventory. Excluding the effect of the expense associated with the inventory step-up in both periods, gross profit as a percentage of net sales increased 420 basis points to 48.2% for the year ended December 31, 2017 compared to 44.0% for the year ended December 31, 2016. This increase in gross profit percentage is due to lower product costs from efficiency in sourcing operations, improved gross margins on new product introductions, and a larger proportion of revenues from the higher margin retail and e-commerce distribution channels as compared to the same period in 2016.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2017 increased to $125.0 million or 40.3% of net sales compared to $107.1 million or 36.3% of net sales in the same period in 2016. This increase in selling, general and administrative expenses was primarily attributable to seventeen new retail stores that were not open in the prior comparable period, strategic investments into sales and marketing, and integration service fees billed by CGM to 5.11 ($1.2 million in 2016 compared to $2.3 million in 2017).

Loss from operations

Loss from operations for the year ended December 31, 2017 was $7.1 million, a decrease of $3.3 million when compared to the same period in 2016, primarily due to the amortization of the inventory step-up resulting from the purchase price allocation, as well as the other factors noted above.

Ergobaby

Overview

Ergobaby, headquartered in Los Angeles, California, 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 half of its sales from outside of the United States.

On May 12, 2016, Ergobaby acquired membership interests of New Baby Tula LLC (“Baby Tula”) for approximately $73.8 million, excluding a potential earn-out payment. Baby Tula designs, markets and distributes baby carriers and accessories. The results of operations of Baby Tula are included from the date of acquisition.

Results of Operations

	Year ended December 31,					
(in thousands)	2018		2017		2016	
Net sales	$90,566	100.0%	$102,969	100.0%	$103,348	100.0%
Gross profit	$59,686	65.9 %	$68,945	67.0 %	$63,386	61.3 %
Selling, general and administrative expense	$40,215	44.4 %	$33,359	32.4 %	$37,703	36.5 %
Income from operations	$11,522	12.7 %	$24,503	23.8 %	$17,151	16.6 %

Year ended December 31, 2018 compared to the Year ended December 31, 2017

Net sales

Net sales for the year ended December 31, 2018 were $90.6 million, a decrease of $12.4 million or 12.0% compared to the same period in 2017. Net sales from Baby Tula for the year ended December 31, 2018 were $19.4 million, compared to $22.4 million in net sales in the year ended December 31, 2017. During the year ended December 31, 2018, international sales were approximately $58.0 million, representing a decrease of $4.6 million over the corresponding period in 2017. Baby Tula international sales during the year ended December 31, 2018 increased $1.0 million from the corresponding period in 2017. Domestic sales were $32.6 million during the year ended December 31, 2018, reflecting a decrease of $7.8 million compared to the corresponding period in 2017. The decrease in domestic sales was primarily the result of the disruption in the retail landscape during 2018, including the continuing effect of the liquidation of a large U.S. retail customer.

Cost of sales

Gross profit as a percentage of net sales was 65.9% for the year ended December 31, 2018 compared to 67.0% for the same period in 2017. The decrease in gross profit as a percentage of net sales in the year ended December 31, 2018 compared to the year ended December 31, 2017 was due to changes in product mix and increased production costs as a result of the launch of a new stroller product.

Selling, general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2018 increased to approximately $40.2 million or 44.4% of net sales compared to $33.4 million or 32.4% of net sales for the same period of 2017. Selling, general and administrative expense in the prior year included the reversal of the fair value of the contingent consideration related to Ergobaby's acquisition of Baby Tula of $3.8 million. Eliminating the effect of the contingent consideration, the increase in Ergobaby's selling, general and administrative expense for the year ended December 31, 2018 compared to the same period in 2017 was primarily due to increases in employee related costs, additional marketing for the new stroller product category launch, additional expense related to the closure of a large retail account, higher distribution and fulfillment costs, commissions due to the mix of sales, as well as the impact of foreign exchange rates.

Income from operations

Income from operations for the year ended December 31, 2018 decreased $13.0 million, to $11.5 million, compared to $24.5 million for the same period of 2017, primarily as a result of the factors described above.

Year ended December 31, 2017 compared to the Year ended December 31, 2016

Net sales

Net sales for the year ended December 31, 2017 were $103.0 million, a decrease of $0.4 million or 0.4% compared to the same period in 2016. Net sales from Baby Tula for the year ended December 31, 2017 were $22.4 million, compared to $16.3 million in sales in the post-May acquisition period in 2016. During the year ended December 31, 2017, international sales were approximately $62.6 million, representing an increase of $5.2 million over the corresponding period in 2016. International sales of baby carriers and accessories increased by approximately $7.2 million and international sales of infant travel systems decreased by approximately $1.4 million during the year ended December 31, 2017 as compared to the comparable period in 2016. Baby Tula international sales during the year ended December 31, 2017 increased $3.3 million from the corresponding period in 2016. Domestic sales were $40.4 million during the year ended December 31, 2017, reflecting a decrease of $6.4 million compared to the corresponding period in 2016. The decrease in domestic sales is attributable to a $6.1 million decrease in domestic infant travel systems and accessories sales, a $2.1 million decrease in sales of Ergo branded baby carrier and accessories to national and specialty retail accounts, partially offset by a $1.8 million increase in Baby Tula domestic sales. The decrease in baby carrier and accessories sales was attributable to the overall weakness in the U.S. retail market during 2017, as well as the bankruptcy of a large national retailer. The decrease in infant travel systems and accessories sales was primarily attributable to exiting the Orbit Baby business during 2016. Baby carriers, sleep products and accessories represented 100% of sales in 2017 compared to 93% in 2016.

Gross Profit

Gross profit as a percentage of net sales was 67.0% for the year ended December 31, 2017 compared to 61.3% for the same period in 2016. Gross profit for the year ended December 31, 2016 included expense of $4.7 million related to the inventory step-up at Baby Tula resulting from the purchase price allocation. Excluding the step-up in inventory at Baby Tula 2016, gross margin would have been 66.0% in the prior year.

Selling, general and administrative expenses

Selling, general and administrative expense for the year ended December 31, 2017 decreased to approximately $33.4 million or 32.4% of net sales compared to $37.7 million or 36.5% of net sales for the same period of 2016. The $4.3 million decrease in the year ended December 31, 2017 compared to the same period in 2016 was primarily attributable to the reversal of the fair value of the contingent consideration related to Ergobaby's acquisition of Baby Tula. The contingent consideration related to the acquisition of Baby Tula had a fair value of $3.8 million and was reversed as of December 31, 2017, when the metrics related to the earnout were not met. The decrease in expense was also due to lower professional fees and marketing expenses, due to the timing of marketing spend, and to lower acquisition costs, related to the 2016 Baby Tula acquisition.

Income from operations

Income from operations for the year ended December 31, 2017 increased $7.4 million, to $24.5 million, compared to $17.2 million for the same period of 2016, primarily as a result of a $5.9 million loss on disposal of assets recorded during the year ended December 31, 2016 related to its decision to dispose of the Orbit Baby product line.

Liberty Safe

Overview

Founded in 1988 and based in Payson, Utah, 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.

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Results of Operations

	Year ended December 31,					
(in thousands)	2018		2017		2016	
Net sales	$82,658	100.0%	$91,956	100.0%	$103,812	100.0%
Gross profit	$19,634	23.8 %	$25,645	27.9 %	$29,507	28.4 %
Selling, general and administrative expense	$13,158	15.9 %	$15,361	16.7 %	$14,737	14.2 %
Income from operations	$5,906	7.1 %	$9,475	10.3 %	$13,234	12.7 %

Year ended December 31, 2018 compared to the Year ended December 31, 2017

Net sales

Net sales for the year ended December 31, 2018 decreased approximately $9.3 million or 10.1%, to $82.7 million, compared to the corresponding period ended December 31, 2017. Non-Dealer sales were approximately $32.9 million in 2018 compared to $42.3 million in 2017, representing a decrease of $9.4 million or 22.2%. Dealer sales totaled approximately $49.7 million in the year ended December 31, 2018 compared to $49.5 million in the same period in 2017, representing an increase of $0.2 million or 0.4%. Liberty continues to face negative trends in the U.S. outdoor retail market, including the bankruptcy filing by a national retailer in the prior year, slower ordering and reductions of inventory levels as a result of the merger of two major outdoor retailers and softer sales at retailers dealing in sporting goods. Liberty Safe's sales backlog was approximately $6.0 million at December 31, 2018 compared to approximately $6.2 million at December 31, 2017.

Gross Profit

Gross profit as a percentage of net sales totaled approximately 23.8% in 2018 compared to 27.9% in 2017. The decrease in gross profit as a percentage of sales during the year ended December 31, 2018 compared to the same period in 2017 is attributable primarily to cost increases in raw materials. Liberty has continued to see a rise in raw material costs, particularly the cost of steel, during 2018 as the tariffs on imported steel has led to rising domestic steel prices. On average, materials account for approximately 60% of the total costs of a safe, with steel accounting for 45% of material costs.

Selling, general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2018 decreased to approximately $13.2 million or 15.9% of net sales compared to $15.4 million or 16.7% of net sales for the same period of 2017. The $2.2 million decrease is primarily attributable to a nonrecurring $1.9 million reserve recorded in the first quarter of 2017 against the outstanding accounts receivable of a retail customer that filed for bankruptcy.

Income from operations

Income from operations decreased $3.6 million during the year ended December 31, 2018 to $5.9 million compared to income from operations of $9.5 million during the same period in 2017, principally as a result of the decrease in sales and gross profit in 2018, as described above.

Year ended December 31, 2017 compared to the Year ended December 31, 2016

Net sales

Net sales for the year ended December 31, 2017 decreased approximately $11.9 million or 11.4%, to $92.0 million, compared to the corresponding period ended December 31, 2016. Non-Dealer sales were approximately $42.3 million in 2017 compared to $52.5 million in 2016, representing a decrease of $10.2 million or 19.4%. Dealer sales totaled approximately $49.5 million in the year ended December 31, 2017 compared to $51.3 million in the same period in 2016, representing a decrease of $1.8 million or 3.5%. The decrease in sales is attributable to lower overall market demand during the current year as compared to 2016, when uncertainty surrounding the 2016 domestic elections and regulatory environment led to an increased level of demand for safes. The Non-Dealer channel also saw a decrease in sales due to the bankruptcy of a large outdoor retailer in the first quarter of 2017. Liberty Safe's sales backlog was approximately $6.2 million at December 31, 2017 compared to approximately $8.4 million at December 31, 2016.

Gross Profit
Gross profit as a percentage of net sales totaled approximately 27.9% in 2017 compared to 28.4% in 2016. The decrease in gross profit as a percentage of net sales during the year ended December 31, 2017 compared to the same period in 2016 is attributable primarily to higher material costs related to the cost of steel, which is Liberty's primary raw material, partially offset by gains in manufacturing efficiencies.
Selling, general and administrative expense
Selling, general and administrative expense for the year ended December 31, 2017 increased to approximately $15.4 million or 16.7% of net sales compared to $14.7 million or 14.2% of net sales for the same period of 2016. The $0.6 million increase is primarily attributable to a $1.9 million reserve established against the outstanding accounts receivable of a retail customer that filed for bankruptcy in the first quarter of 2017, offset by a reduction in administrative expenses.
Income from operations
Income from operations decreased $3.8 million during the year ended December 31, 2017 to $9.5 million compared to income from operations of $13.2 million during the same period in 2016, principally as a result of the decrease in sales and gross profit in 2017, as described above.
Manitoba Harvest
Overview
Headquartered in Winnipeg, Manitoba, Manitoba Harvest is a pioneer and leader in branded, hemp-based foods and ingredients. Manitoba Harvest’s products, which management believes are one of the fastest growing in the hemp food market and among the fastest growing in the natural foods industry, are currently carried in approximately 16,500 retail stores across the United States and Canada. The company’s hemp-based, 100% all-natural consumer products include hemp hearts, protein powder, hemp oil and snacks.
Results of Operations

	Year ended December 31,					
(in thousands)	2018		2017		2016	
Net sales	$67,437	100.0 %	$55,699	100.0 %	$59,323	100.0 %
Gross profit	$28,877	42.8 %	$25,101	45.1 %	$26,505	44.7 %
Selling, general and administrative expense	$25,741	38.2 %	$21,092	37.9 %	$21,326	35.9 %
Income (loss) from operations	$(1,754)	(2.6)%	$(9,332)	(16.8)%	$321	0.5 %

Year ended December 31, 2018 compared to the Year ended December 31, 2017
Net sales
Net sales for the year ended December 31, 2018 were approximately $67.4 million, an increase of $11.7 million, or 21.1%, compared to the same period in 2017. During 2018, Manitoba Harvest experienced strong growth across both the branded and ingredient product lines. Consumer awareness programs, new distribution gains, and consumer demand for plant-based protein continue to drive sales of their shelled hemp seed and hemp oil products.
Gross Profit
Gross profit for the year ending December 31, 2018 was $28.9 million, an increase of $3.8 million compared to the prior year. Gross profit as a percentage of net sales was 42.8% for the year ended December 31, 2018 as compared to 45.1% for the year ended December 31, 2017. The decrease in gross profit as a percentage of net sales in the current year was primarily driven by protein powder work in process inventory adjustments, incremental third party warehousing to support customer service and consumer demand, and costs related to the realignment of logistics between our Winnipeg and St. Agathe facilities.
Selling, general and administrative expense
Selling, general and administrative expense for the year ended December 31, 2018 increased to approximately $25.7 million or 38.2% of net sales compared to $21.1 million or 37.9% of net sales for the same period of 2017. The $4.6

million increase in 2018 compared to 2017 is primarily due to ongoing investments in key operating capability initiatives such as creative production, digital media, public relations, creative production, field sales and research and development.

Loss from operations

Loss from operations for the year ended December 31, 2018 was approximately $1.8 million, as compared to a loss from operations of $9.3 million for the same period in 2017. Manitoba Harvest performed an interim impairment test of goodwill and its indefinite lived trade name in the fourth quarter of 2017, which resulted in the recording of impairment expense of $8.5 million. Approximately $6.2 million of the impairment expense related to goodwill, and $2.3 million of the impairment expense related to the Manitoba Harvest trade name. While Manitoba Harvest saw a significant increase in net sales and gross profit compared to the prior year, the ongoing investment in their business has led to an offsetting increase in selling, general and administrative expense in the current year, resulting in the loss from operations.

Year ended December 31, 2017 compared to the Year ended December 31, 2016

Net sales

Net sales for the year ended December 31, 2017 were approximately $55.7 million, a decrease of $3.6 million, or 6.1%, compared to the same period in 2016. Manitoba Harvest experienced declines in bulk hemp seed ingredient sales to international markets in the current year, which was partially offset by growth in their Canadian retail, U.S. club and online businesses, driven by sales of branded hemp heart products and hemp oil.

Gross Profit

Gross profit as a percentage of sales increased to 45.1% for the year ended December 31, 2017 from 44.7% for the year ended December 31, 2016, primarily due to the decrease in sales of ingredients, which have historically had lower margins than the branded Manitoba Harvest products. Gross profit margins in our branded business increased due to improving product mix and lower material costs. Gross profit margins in our ingredient business declined due to a more competitive pricing environment and less fixed cost leverage.

Selling, general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2017 decreased to approximately $21.1 million or 37.9% of net sales compared to $21.3 million or 35.9% of net sales for the same period of 2016. The $0.2 million decrease in 2017 compared to 2016 is primarily due to lower customer shipping costs, and more efficient field selling operations.

Income (loss) from operations

Loss from operations for the year ended December 31, 2017 was approximately $9.3 million, as compared to income of $0.3 million for the same period in 2016. Manitoba Harvest performed an interim impairment test of goodwill and its indefinite lived trade name in the fourth quarter of 2017, which resulted in the recording of impairment expense of $8.5 million. $6.2 million of the impairment expense related to goodwill, and $2.3 million of the impairment expense related to the Manitoba Harvest trade name. The impairment expense recognized in 2017 was the primary factor contributing to the loss from operations.

Velocity Outdoor

Overview

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, LaserMax, Ravin and CenterPoint brands that are available through national retail chains, mass merchants, dealer and distributor networks. Airguns historically represent Velocity Outdoor's largest product category. 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 and Ravin crossbows, 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, 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.

Results of Operations

Velocity Outdoor was acquired in June 2017. In the following results of operations, we provide the actual results of operations for the year ended December 31, 2018, as well as comparative results of operations for Velocity for the years ended December 31, 2017 and 2016 as if we had acquired the business on January 1, 2016, including relevant pro forma adjustments for pre-acquisition periods and explanations where applicable.

(in thousands)	Year ended December 31, 2018			2017 (Pro forma)			2016 (Pro forma)		
Net sales	$131,296	100.0	%	$120,033	100.0	%	$118,736	100.0	%
Gross profit [1]	$34,372	26.2	%	$27,641	23.0	%	$31,727	26.7	%
Selling, general and administrative expense [2]	$22,761	17.3	%	$18,636	15.5	%	$15,660	13.2	%
Income from operations	$4,850	3.7	%	$3,756	3.1	%	$10,909	9.2	%

Pro forma results of operations of Velocity for the years ended December 31, 2017 and December 31, 2016 include the following pro forma adjustments, applied to historical results as if we had acquired Velocity on January 1, 2016:

[1] Gross profit was decreased by $0.2 million for the year ended December 31, 2017, and $0.6 million for the year ended December 31, 2016, to reflect the increase in the depreciable lives for machinery and equipment.

[2] Selling, general and administrative expense was increased by $0.4 million for the year ended December 31, 2017, and $0.8 million for the year ended December 31, 2016, to reflect stock compensation expense related to profit interests that were granted to Velocity employees as a result of the acquisition.

Year ended December 31, 2018 compared to the Pro Forma Year ended December 31, 2017

Net sales

Net sales for the year ended December 31, 2018 were $131.3 million compared to net sales of $120.0 million for the year ended December 31, 2017, an increase of $11.3 million or 9.4%. The increase in net sales for the year ended December 31, 2018 is primarily due to add-on acquisitions in the third quarters of 2017 and 2018.

Gross Profit

Gross profit as a percentage of net sales was 26.2% for the year ended December 31, 2018 as compared to 23.0% in the year December 31, 2017. Cost of sales for the year ended December 31, 2018 included $2.5 million in expense related to the inventory step-up resulting from the purchase price allocation for Ravin, while cost of sales for the year ended December 31, 2017 included $3.3 million in expense related to the inventory step-up resulting from the purchase price allocation for Velocity. Excluding the effect of the inventory step-ups, gross profit as a percentage of net sales was 28.1% for the year ended December 31, 2018 as compared to 25.8% for the year ended December 31, 2017 due to the mix of products sold during the two periods.

Selling general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2018 was $22.8 million, or 17.3% of net sales compared to $18.6 million, or 15.5% of net sales, for the year ended December 31, 2017. The selling, general and administrative expense for the year ended December 31, 2018 included $1.3 million in acquisition costs related to our acquisition of Ravin in September 2018. Selling, general and administrative expense for the year ended December 31, 2017 included $1.8 million in transaction costs paid in relation to the acquisition of Velocity in June 2017 and an add-on acquisition at Velocity completed during the third quarter of 2017. The balance of the expense growth in 2018 is related to increased sales support, marketing spend and the impact from the 2017 and 2018 add-on acquisitions.

Income from operations

Income from operations for the year ended December 31, 2018 was $4.9 million, an increase of $1.1 million when compared to income from operations of $3.8 million for the comparable period in 2017, based on the factors described above.

Pro Forma Year ended December 31, 2017 compared to the Pro Forma Year ended December 31, 2016
Net sales
Net sales for the year ended December 31, 2017 were $120.0 million compared to net sales of $118.7 million for the year ended December 31, 2016, an increase of $1.3 million or 1.1%. The increase in net sales for the year ended December 31, 2017 is primarily due to growth in the archery products category and an add-on acquisition during the third quarter of 2017.
Gross Profit
Gross profit as a percentage of net sales was 23.0% for the year ended December 31, 2017 compared to 26.7% for the year ended December 31, 2016. Cost of sales for the year ended December 31, 2017 included $3.3 million in expense related to the inventory step-up resulting from the purchase price allocation for Velocity. Excluding the effect of the inventory step-up, gross profit as a percentage of net sales was 25.8% for the year ended December 31, 2017 as compared to 26.7% for the year ended December 31, 2016 due to the mix of products sold during the two periods.
Selling general and administrative expense
Selling, general and administrative expense for the year ended December 31, 2017 was $18.6 million, or 15.5% of net sales compared to $15.7 million, or 13.2% of net sales, for the year ended December 31, 2016. Selling, general and administrative expense for the year ended December 31, 2017 includes $1.8 million in transaction costs paid in relation to the acquisition of Velocity in June 2017 and an add-on acquisition at Velocity completed during the third quarter of 2017, as well as $0.7 million in integration services fees paid or payable to CGM. Excluding the transaction costs and integration services fee from the selling, general and administrative expense, there was no material change in expense items.
Income from operations
Income from operations for the year ended December 31, 2017 was $3.8 million, a decrease of $7.2 million when compared to income from operations of $10.9 million for the comparable period in 2016, based on the factors described above.

Niche Industrial Businesses
Advanced Circuits
Overview
Advanced Circuits is a provider of small-run, quick-turn and volume production PCBs to customers throughout the United States. Historically, small-run and quick-turn PCBs have represented approximately 50% to 54% of Advanced Circuits' gross revenues. 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.
Results of Operations

	Year Ended December 31,					
(in thousands)	2018		2017		2016	
Net sales	$92,511	100.0%	$87,782	100.0%	$86,041	100.0%
Gross profit	$43,166	46.7 %	$39,884	45.4 %	$38,044	44.2 %
Selling, general and administrative expense	$15,108	16.3 %	$14,565	16.6 %	$13,579	15.8 %
Income from operations	$26,335	28.5 %	$23,575	26.9 %	$22,718	26.4 %

Year ended December 31, 2018 compared to the Year ended December 31, 2017
Net sales
Net sales for the year ended December 31, 2018 were approximately $92.5 million compared to approximately $87.8 million for the same period in 2017, an increase of approximately $4.7 million or 5.4%. The increase in net sales was due to increased sales in Quick-Turn Production PCBs by approximately $1.3 million, Long-Lead Time PCBs by approximately $2.4 million, Subcontract by approximately $1.0 million, and decreased Promotion by approximately

$0.8 million. This was partially offset by decreases in Assembly sales by approximately $0.1 million and Quick-Turn Small-Run PCBs by approximately $0.7 million. On a consolidated basis at ACI, Quick-Turn Small-Run PCBs comprised approximately 18.9% of gross sales and Quick-Turn Production PCBs represented approximately 33.0% of gross sales for the year ended December 31, 2018. Quick-Turn Small-Run PCBs comprised approximately 20.4% of gross sales and Quick-Turn Production PCBs represented approximately 33.0% of gross sales for the year ended December 31, 2017.

Gross profit

Gross profit as a percentage of net sales increased 130 basis points during the year ended December 31, 2018 (46.7% in 2018 compared to 45.4% in 2017) primarily as a result of sales mix.

Selling, general and administrative expense

Selling, general and administrative expenses were approximately $15.1 million in the year ended December 31, 2018 as compared to $14.6 million in the year ended December 31, 2017, an increase of approximately $0.5 million. The increase in selling, general and administrative expense is primarily due to increased commissions from higher sales and a full year of expense for the financial, sales, and production management added in 2017. Selling, general and administrative expenses represented 16.3% of net sales for the year ended December 31, 2018 compared to 16.6% of net sales in 2017.

Income from operations

Income from operations for the year ended December 31, 2018 was approximately $26.3 million compared to $23.6 million in the same period in 2017, an increase of approximately $2.8 million, as a result of the factors described above.

Year ended December 31, 2017 compared to the Year ended December 31, 2016

Net sales

Net sales for the year ended December 31, 2017 were approximately $87.8 million compared to approximately $86.0 million for the same period in 2016, an increase of approximately $1.7 million or 2.0%. The increase in net sales during the year ended December 31, 2017 was due to increased sales in Quick-Turn Production PCBs by approximately $1.5 million, Long-Lead Time PCBs by approximately $0.5 million, Subcontract by approximately $0.6 million, and a decrease in promotions by approximately $0.4 million. This was partially offset by decreases in Assembly by approximately $0.3 million and Quick-Turn Small-Run PCBs by approximately $1.0 million. On a consolidated basis, Quick-Turn Small-Run PCBs comprised approximately 20.4% of gross sales and Quick-Turn Production PCBs represented approximately 33.0% of gross sales for the twelve months ended December 31, 2017. Quick-Turn Small-Run PCBs comprised approximately 21.8% of gross sales and Quick-Turn Production PCBs represented approximately 31.8% of gross sales for the twelve months ended December 31, 2016.

Gross Profit

Gross profit as a percentage of net sales increased 120 basis points during the year ended December 31, 2017 (45.4% in 2017 compared to 44.2% in 2016) primarily as a result of sales mix.

Selling, general and administrative expense

Selling, general and administrative expenses were approximately $14.6 million in the year ended December 31, 2017 as compared to $13.6 million in the year ended December 31, 2016, an increase of approximately $1.0 million. The increase in selling, general and administrative expense is primarily due to growth within financial, sales, and production management in the current year. Selling, general and administrative expenses represented 16.6% of net sales for the year ended December 31, 2017 compared to 15.8% of net sales in 2016.

Income from operations

Income from operations for the year ended December 31, 2017 was approximately $23.6 million compared to $22.7 million in the same period in 2016, an increase of approximately $0.9 million, as a result of the factors described above.

Arnold

Overview

Headquartered in Rochester, New York, 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 100+ years, Arnold has successfully evolved and adapted our products, technologies, and manufacturing presence to meet the demands of current and emerging markets. Arnold has expanded globally and built strong relationships with our customers worldwide. As a result, Arnold leads the way in our chosen industries with new materials and solutions that empower our customers to develop next generation technologies. Arnold is the largest and, we believe, the most technically advanced U.S. manufacturer of engineered magnetic systems. Arnold is one of two domestic producers to design, engineer and manufacture rare earth magnetic solutions. Arnold serves customers and generates revenues via three business units, Permanent Magnets and Assemblies Group ("PMAG"), Precision Thin Metals ("PTM") and Flexmag.

Results of Operations

	Year ended December 31,					
(in thousands)	2018		2017		2016	
Net sales	$117,860	100.0%	$105,580	100.0 %	$108,179	100.0 %
Gross profit	$30,381	25.8 %	$26,717	25.3 %	$23,704	21.9 %
Selling, general and administrative expense	$19,036	16.2 %	$19,583	18.5 %	$16,602	15.3 %
Impairment expense	$—	— %	$8,864	8.4 %	$16,000	14.8 %
Income (loss) from operations	$7,416	6.3 %	$(5,693)	(5.4)%	$(12,921)	(11.9)%

Year ended December 31, 2018 compared to the Year ended December 31, 2017

Net sales

Net sales for the year ended December 31, 2018 were approximately $117.9 million, an increase of $12.3 million compared to the same period in 2017. The increase in net sales is primarily a result of increased demand across various product sectors and markets. PMAG sales represented 74% of net sales in the year ended December 31, 2018 and 72% of net sales in the year ended December 31, 2017. International sales were $47.8 million and $42.3 million for the years ended December 31, 2018 and 2017, respectively, an increase of $5.5 million, primarily as a result of the increased sales at PMAG.

Gross Profit

Gross profit was $30.4 million for the year ended December 31, 2018 as compared to $26.7 million for the same period in 2017. Gross profit as a percentage of net sales increased from 25.3% in 2017 to 25.8% in 2018. The increase is principally attributable to an increase in sales volume and manufacturing efficiencies.

Selling, general and administrative expense

Selling, general and administrative expense in the year ended December 31, 2018 was $19.0 million as compared to approximately $19.6 million for the year ended December 31, 2017. The decrease in expense is primarily attributable to non-recurring legal and environmental expenses and reduced consulting fees. Selling, general and administrative expense represented 16.2% of net sales for the year ended December 31, 2018 as compared to 18.5% for the same period in 2017.

Income (loss) from operations

Arnold had income from operations of approximately $7.4 million for the year ended December 31, 2018, as compared to a loss from operations of $5.7 million for the year ended December 31, 2017, with the loss in the prior year primarily as a result of the impairment expense.

Year ended December 31, 2017 compared to the Year ended December 31, 2016

Net sales

Net sales for the year ended December 31, 2017 were approximately $105.6 million, a decrease of $2.6 million compared to the same period in 2016. The decrease in net sales is primarily a result of decreases in the PMAG ($2.1 million), and Flexmag ($1.5 million) product sectors. PMAG sales represented 72% of net sales in each of the years ended December 31, 2017 and 2016. The decrease in PMAG sales is mainly attributable to lower sales of reprographic products. The decrease in Flexmag sales during the year ended December 31, 2017 compared to the same period in 2016 is largely due to decreased customer demand. International sales were $42.3 million and $42.0 million for the years ended December 31, 2017 and 2016, respectively.

Gross Profit

Gross profit as a percentage of net sales increased from 21.9% in 2016 to 25.3% in 2017 despite lower sales. The increase is principally attributable to an increase in Precision Thin Metals margins partially offset by the impact of PMAG volume reductions. Flexmag margin in 2017 was consistent with 2016.

Selling, general and administrative expense

Selling, general and administrative expense in the year ended December 31, 2017 was $19.6 million as compared to approximately $16.6 million for the year ended December 31, 2016. The increase in expense is primarily attributable to a one-time increase in legal, professional and environmental fees.

Impairment expense

Arnold performed an interim impairment test at each of its reporting units in the fourth quarter of 2016, which resulted in the recording of preliminary impairment expense of the PMAG reporting unit of $16.0 million. In the first quarter of 2017, Arnold completed the impairment testing of the PMAG reporting unit and recorded an additional $8.9 million impairment expense based on the results of the Step 2 impairment testing.

Loss from operations

Arnold had a loss from operations for the year ended December 31, 2017 of approximately $5.7 million, as compared to a loss from operations of $12.9 million for the year ended December 31, 2016, with the loss in both years primarily as a result of the impairment expense.

Clean Earth

Overview

Founded in 1990, Clean Earth is a provider of environmental services for a variety of contaminated materials. Clean Earth provides a one-stop shop solution that analyzes, treats, documents and recycles waste streams generated in multiple end-markets such as utilities, infrastructure, chemicals, aerospace and defense, non-public/ private development, medical, industrial and dredging. Historically, the majority of Clean Earth’s revenues have been generated by contaminated soils, which includes environmentally impacted soils and other materials which are treated at one of its eleven permitted soil treatment facilities. Clean Earth also operates six RCRA Part B hazardous waste facilities, and a water waste treatment facility. The remaining revenue has been generated by dredge material, which consists of sediment removed from the floor of a body of water for navigational purposes and/or environmental remediation of contaminated waterways and is treated at one of its two permitted dredge processing facilities. Approximately 98% of the material processed by Clean Earth is beneficially reused for such purposes as infrastructure projects, daily landfill cover, industrial and brownfield redevelopment projects.

Results of Operations

	Year ended December 31,					
(in thousands)	2018		2017		2016	
Net revenues	$266,916	100.0%	$211,247	100.0%	$188,997	100.0%
Gross profit	$75,470	28.3 %	$61,219	29.0 %	$54,330	28.7 %
Selling, general and administrative expense	$46,677	17.5 %	$35,875	17.0 %	$30,018	15.9 %
Income from operations	$14,443	5.4 %	$12,037	5.7 %	$7,929	4.2 %

Year ended December 31, 2018 compared to the Year ended December 31, 2017

Net revenues

Net revenues for the year ended December 31, 2018 were approximately $266.9 million, an increase of $55.7 million or 26.4% compared to the same period in 2017. Contaminated soil revenue increased 20% as compared to the same period last year, which is principally attributable to large project awards and the impact of recent acquisitions. Hazardous waste revenue increased 21% in the current year as compared to the prior year as a result of recent acquisitions and growth in the base business. Net revenues from dredge increased $14.3 million in 2018 as compared to the prior year, due to the timing of projects. Contaminated soils represented approximately 53% of net revenues for the year ended December 31, 2018 and 55% of net revenues for the year ended December 31, 2017.

Gross profit

Gross profit for the year ended December 31, 2018 was approximately $75.5 million compared to approximately $61.2 million in the same period of 2017, an increase of $14.3 million, primarily as a result of increases in the gross profit at each of Clean Earths' service lines. Gross profit as a percentage of net revenues decreased from 29.0% for the year ended December 31, 2017 to 28.3% for the year ended December 31, 2018. The decrease in gross profit as a percentage of net revenues is due to increased back-end costs for certain soil facilities.

Selling, general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2018 increased to approximately $46.7 million or 17.5% of net revenues compared to $35.9 million or 17.0% of net revenues for the same period in 2017. The $10.8 million increase in selling, general and administrative expenses in the year ended December 31, 2018 compared to 2017 is primarily attributable to Clean Earth's recent acquisitions.

Income from operations

Income from operations for the year ended December 31, 2018 was approximately $14.4 million as compared to income from operations of $12.0 million for the year ended December 31, 2017, an increase of $2.4 million, primarily as a result of those factors described above.

Year ended December 31, 2017 compared to the Year ended December 31, 2016

Net revenues

Net revenues for the year ended December 31, 2017 were approximately $211.2 million, an increase of $22.3 million or 11.8% compared to the same period in 2016. The increase in service revenues is principally due to two acquisitions in 2016 and one in 2017. For the year ended December 31, 2017, contaminated soil volumes increased 11% as compared to the same period last year principally attributable to commercial development activity in the New York City area, and the acquisition of Phoenix Soil in April 2016. Revenue from dredged material decreased during 2017 as compared to 2016 due to the timing and flow of new maintenance contracts in our core markets. Contaminated soils represented approximately 55% of net revenues for both the years ended December 31, 2017 and 2016.

Gross profit

Gross profit for the year ended December 31, 2017 were approximately $61.2 million compared to approximately $54.3 million in the same period of 2017, an increase of $6.9 million, primarily as a result of the two acquisitions in 2016 and one acquisition in 2017. Gross profit as a percentage of net revenues increased from 28.7% for the year ended December 31, 2016 to 29.0% for the year ended December 31, 2017.

Selling, general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2017 increased to approximately $35.9 million or 17.0% of service revenues compared to $30.0 million or 15.9% of service revenues for the same period in 2016. The $5.9 million increase in selling, general and administrative expenses in the year ended December 31, 2017 compared to 2016 is primarily attributable to Clean Earth's recent acquisitions.

Income from operations

Income from operations for the year ended December 31, 2017 was approximately $12.0 million as compared to income from operations of $7.9 million for the year ended December 31, 2016, an increase of $4.1 million, primarily as a result of a loss on disposal of assets of $3.3 million in the prior year related to the closure of Clean Earth's Williamsport site.

Foam Fabricators

Overview

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.

Results of Operations

Foam Fabricators was acquired in February 2018. In the following results of operations, we provide comparative results of operations for Foam Fabricators for the years ended December 31, 2018 and 2017 as if we had acquired the business on January 1, 2017, including relevant pro forma adjustments for pre-acquisition periods and explanations where applicable.

	Year ended December 31,			
(in thousands)	2018 (Pro forma)		2017 (Pro forma)	
Net sales	$128,465	100.0 %	$126,389	100.0 %
Gross profit	$34,839	27.1 %	$38,959	30.8 %
Selling, general and administrative expense	$14,028	10.9 %	$12,722	10.1 %
Income from operations	$12,196	9.5 %	$17,457	13.8 %

Pro forma financial information for Foam Fabricators for the years ended December 31, 2018 and 2017 includes pre-acquisition results of operations for the period from January 1, 2017 through December 31, 2017, and January 1, 2018 through February 15, 2018, the acquisition date of Foam Fabricators, for comparative purposes. The historical results of Foam Fabricators for the year ended December 31, 2017 and the period from January 1, 2018 through February 15, 2018 have been adjusted to reflect the purchase accounting adjustments recorded in connection with the acquisition. In the year ended December 31, 2017, we recorded $1.0 million in stock compensation expense, $0.2 million reduction in depreciation expense and $8.0 million in amortization expense, as well as $0.8 million in management fees that would have been incurred by Foam Fabricators if we owned the company during this period. The historical results of Foam Fabricators for the period from January 1, 2018 through February 15, 2018 have been adjusted to reflect $0.2 million in stock compensation expense, $0.1 million in depreciation 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.

Pro Forma Year ended December 31, 2018 compared to the Pro Forma Year ended December 31, 2017

Net sales

Net sales for the year ended December 31, 2018 were $128.5 million, an increase of $2.1 million, or 1.6%, compared to the year ended December 31, 2017. The increase in net sales was due to organic growth with the existing customer base, primarily related to the appliance and other packaging categories.

Gross profit

Gross profit as a percentage of net sales was 27.1% and 30.8%, respectively, for the years ended December 31, 2018 and 2017. The cost of sales for the year ended December 31, 2018 includes $0.7 million related to the inventory step-up resulting from the acquisition purchase price allocation. Excluding the effect of the inventory step-up, the gross profit as a percentage of net sales for the year ended December 31, 2018 was 27.6%, a decrease of 320 basis points compared to the comparable period in the prior year. The decrease in gross profit percentage was primarily due to due to increased raw material costs and, to a lesser degree, increased compensation, benefits and other plant expenses.

Selling, general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2018 was $14.0 million as compared to $12.7 million for the year ended December 31, 2017, an increase of $1.3 million. Selling, general and administrative expense for the year ended December 31, 2018 includes $2.0 million in integration service fees paid to CGM and $1.5 million in transaction costs paid in relation to the acquisition of Foam Fabricators. Excluding the integration fees and transaction costs, selling, general and administrative expense for the year ended December 31, 2018 was $2.2 million lower than the comparable period in the prior year due to lower management bonus expenses and nonrecurring expenses related to the compensation of the previous owner.

Income from operations

Income from operations was $12.2 million for the year ended December 31, 2018 as compared to $17.5 million for the year ended December 31, 2017, a decrease of $5.3 million based on the factors noted above.

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Sterno
Overview
Sterno is a manufacturer and marketer of portable food warming fuel and creative ambience solutions for the hospitality and consumer markets. 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. ("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.
Results of Operations
The table below summarizes the results of operations for Sterno for the fiscal years ended December 31, 2018, 2017 and 2016. The historical operating results of Rimports have been added to the previously reported Sterno results of operations for the year ended December 31, 2017 and the Sterno results of operations for the 2018 period prior to acquisition by Sterno, as if Sterno had acquired Rimports on January 1, 2017, including relevant pro forma adjustments for pre-acquisition periods and explanations where applicable. The historical results of operations of Sterno for the year ended December 31, 2017 are presented in the table below as previously reported in the December 31, 2017 10-K as well for purposes of comparison to the year ended December 31, 2016.

	Year ended December 31,											
(in thousands)	2018			2017			2017			2016		
	Pro Forma			Pro Forma								
Net sales	$405,870	100.0	%	$383,401	100.0	%	$226,110	100.0	%	$218,817	100.0	%
Gross profit	$97,381	24.0	%	$99,201	25.9	%	$55,755	24.7	%	$60,095	27.5	%
Selling, general and administrative expense	$37,131	9.1	%	$37,891	9.9	%	$28,662	12.7	%	$34,362	15.7	%
Income from operations	$42,500	10.5	%	$43,797	11.4	%	$19,194	8.5	%	$18,799	8.6	%

Pro forma financial information for Sterno for the years ended December 31, 2018 and 2017 includes pre-acquisition results of operations of Rimports for the period from January 1, 2017 through December 31, 2017, and January 1, 2018 through February 28, 2018, the acquisition date of Rimports, for comparative purposes. The historical results of Sterno for the year ended December 31, 2017 and the period from January 1, 2018 through February 28, 2018 have been adjusted to reflect the purchase accounting adjustments recorded in connection with the acquisition. In the year ended December 31, 2017, $0.1 million reduction in depreciation expense and $9.6 million in amortization expense. The historical results of Sterno for the period from January 1, 2018 through February 15, 2018 have been adjusted to reflect $0.1 million in depreciation expense, and $1.6 million in amortization expense.
Pro Forma Year ended December 31, 2018 compared to the Pro Forma Year ended December 31, 2017
Net sales
Net sales for the year ended December 31, 2018 were approximately $405.9 million, an increase of $22.5 million or 5.9% compared to the same period in 2017. The net sales variance reflects increased Rimports sales relating to harvest promotions, scented wax products and essential oils, as well as stronger Sterno Home candle and outdoor sales.
Gross Profit
Gross profit as a percentage of net sales decreased from 25.9% for the year ended December 31, 2017 to 24.0% for the same period ended December 31, 2018. Sterno recognized $4.6 million in cost of goods sold in the second quarter of 2018 and $2.0 million in the third quarter of 2018 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 inventory step-up, gross profit as a percentage of net sales was 25.6% for the year ended December 31, 2018. The decrease in gross profit percentage during the year ended December 31, 2018 primarily reflects an increase in chemical and other material costs, as well as higher freight and carrier costs.

Selling, general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2018 was approximately $37.1 million as compared to $37.9 million in the year ended December 31, 2017, a decrease of $0.8 million or 2.0%. Selling, general and administrative expense represented 9.1% of net sales for the year ended December 31, 2018 as compared to 9.9% of net sales for the same period in 2017. The decrease as a percentage of net sales in 2018 as compared to the same period in 2017 reflects the reversal of the fair value of the contingent consideration related to the acquisition of Rimports of $4.8 million, the increase in sales during the current period, and lower marketing costs, commissions, and development expense.

Income from operations

Income from operations for the year ended December 31, 2018 was approximately $42.5 million, a decrease of $1.3 million when compared to the same period in 2017, due primarily to the increased costs associated with the Rimports acquisition, including the inventory step-up expense noted above.

Year ended December 31, 2017 compared to the Year ended December 31, 2016

Net sales

Net sales for the year ended December 31, 2017 were approximately $226.1 million, an increase of $7.3 million or 3.3% compared to the same period in 2016. The increase in net sales is a result of the acquisition of Sterno Home in January 2016, partially offset by sales shortfall at Sterno Home's candle division due to reduced demand and non-repeating orders. Sterno Home had net sales of $9.0 million in the period prior to acquisition in January 2016.

Gross Profit

Gross profit as a percentage of net sales decreased from 27.5% for the year ended December 31, 2016 to 24.7% for the same period ended December 31, 2017. The decrease in gross margin during 2017 primarily reflects an increase in chemical material costs, and a reclassification of certain expenses at Sterno Home from selling, general and administrative expense to cost of goods sold. The reclassification was approximately $3.2 million and was made to align costs related to quality assurance and engineering with the classification used by Sterno Products.

Selling, general and administrative expense

Selling, general and administrative expense for the year ended December 31, 2017 was approximately $28.7 million as compared to $34.4 million in the year ended December 31, 2016, a decrease of $5.7 million or 16.6%. Selling, general and administrative expense represented 12.7% of net sales for the year ended December 31, 2017 as compared to 15.7% of net sales for the same period in 2016. The decrease as a percentage of net sales in 2017 as compared to the same period in 2016 reflects the increase in sales during the period and Sterno Home reorganization efforts to reduce staff, as well as the reclassification of certain expenses related to Sterno Home from selling, general and administrative expense to cost of goods sold. The reclassification was approximately $3.2 million and was made to align costs related to quality assurance and engineering with the classification used by Sterno Products. Sterno also recognized a reversal of the fair value of the contingent consideration related to the acquisition of Sterno Home $1.0 million in the fourth quarter of 2017.

Income from operations

Income from operations for the year ended December 31, 2017 was approximately $19.2 million, a decrease of $0.4 million when compared to the same period in 2016, due primarily to the increase in material costs in 2017 as described above.

Liquidity and Capital Resources

The change in cash and cash equivalents is as follows:

	Year ended December 31,		
(in thousands)	2018	2017	2016
Cash provided by operating activities	$114,452	$81,771	$111,372
Cash used in investing activities	(604,080)	(77,278)	(363,021)
Cash provided by (used in) financing activities	500,111	(2,588)	208,726
Effect of exchange rates on cash and cash equivalents	2,958	(1,792)	(3,174)
Increase (decrease) in cash and cash equivalents	$13,441	$113	$(46,097)

Cash Flow from Operating Activities

2018

Cash flows provided by operating activities totaled approximately $114.5 million for the year ended December 31, 2018, which represents an increase of $32.7 million compared to cash flow from operating activities of $81.8 million for the year ended December 31, 2017. Cash used in operating activities for working capital for the year ended December 31, 2018 was $6.3 million as compared to cash used for working capital of $40.4 million for the year ended December 31, 2017. Our working capital cash flows in the current year reflect a significant decrease in the cash flows from accounts receivable as well as a significant increase in cash flows from accounts payable and accrued expenses compared to the prior year, resulting in an overall decrease in the cash used for working capital. This decrease mostly reflects timing of collections and payments in the current year.

2017

Cash flows provided by operating activities totaled approximately $81.8 million for the year ended December 31, 2017, which represents a decrease of $29.6 million compared to cash flow from operating activities of $111.4 million for the year ended December 31, 2016. Cash used in operating activities for working capital for the year ended December 31, 2017 was $40.4 million as compared to cash provided by working capital of $18.5 million for the year ended December 31, 2016. The increase was primarily due to cash used for inventory by our branded consumer businesses during 2017, as well as a full year of operations at 5.11 (acquired in August 2016) and the acquisition of Velocity in June 2017. The change in cash used to purchase inventory in 2017 was approximately $31.1 million as compared to the prior year, with $29.8 million of the variance related to the branded consumer businesses.

2016

For the year ended December 31, 2016, cash flows provided by operating activities (from both continuing and discontinued operations) totaled approximately $111.4 million, which represents a $26.8 million increase compared to cash flow from operating activities of $84.5 million during the year ended December 31, 2015. Net cash provided by discontinued operations totaled $3.7 million in 2016 as compared to $15.5 million in 2015, with the decrease due to the number of dispositions reflected in each year as well as the timing of the dispositions. The increase in net cash provided by operating activities of continuing operations of $38.7 million, which is principally the result of higher net income in 2016 and changes in cash provided by working capital in the year ended December 31, 2016 as compared to the same period in 2015 (an increase of $13.2 million), as a result of the acquisitions completed during 2016.

Cash Flow from Investing Activities

2018

Cash flows used in investing activities totaled approximately $604.1 million, compared to $77.3 million used in investing activities during the year ended December 31, 2017, an increase of $526.8 million. In the current year, we had a platform acquisition in the first quarter, Foam Fabricators, and several add-on acquisitions at our subsidiaries. Sterno acquired Rimports in February 2018, Clean Earth has had several add-on acquisitions throughout the year, and our Velocity Outdoor subsidiary acquired Ravin in September 2018. The total total cash paid for these current year acquisitions was $552.1 million, while in the prior year, we spent approximately $165.0 million related to our acquisition of Velocity Outdoor and two smaller add-on acquisitions. Capital expenditures in the year ended December 31, 2018 increased $5.5 million, due primarily to expenditures at our 5.11 business related to investments in various infrastructure

and systems projects to position them for future growth. We expect capital expenditures for fiscal year 2019 to be approximately $45 million to $55 million.

2017

Cash flows used in investing activities totaled approximately $77.3 million, compared to $363.0 million used in investing activities during the year ended December 31, 2016, a decrease of $285.7 million. During 2016, we completed our acquisition of 5.11 in August, and several add-on acquisitions including the acquisition of Baby Tula by Ergobaby and Sterno Home by Sterno for a total of $536.2 million in cash investment, while in 2017, our total cash paid for acquisitions of $165.0 million related to our acquisition of Velocity Outdoor and two smaller add-on acquisitions. Capital expenditures in the year ended December 31, 2017 increased $20.8 million, due primarily to expenditures at our 5.11 business related to investments in various infrastructure and systems projects to position them for future growth. The cash paid for acquisitions and capital expenditures was offset in both years by proceeds from the sale of our investment in FOX, $136.1 million in 2017 and $182.5 million in 2016, as well as the sale of our Tridien business in 2016. The sale of our FOX shares in 2017 represented our remaining investment in FOX.

2016

Cash flows used in investing activities for the year ended December 31, 2016 totaled approximately $363.0 million, compared to $233.9 million provided by investing activities in the same period of 2015. The 2016 investing activities primarily reflect the acquisition of 5.11 in the third quarter and the add-on acquisition of Sterno Home, Baby Tula, Phoenix Soil and EWS ($536.2 million) and net proceeds from the sale of Tridien in September 2016 ($11.2 million in net proceeds). Capital expenditures from continuing operations in the year ended December 31, 2016 increased approximately $8.3 million, from $15.7 million in 2015 to $24.0 million in 2016. The increase in capital expenditures is attributable to our acquisition of 5.11 in August 2016, and additional investment in Sterno, Advanced Circuits and Liberty during 2016 compared to the prior year. The 2016 investing activities also reflect proceeds from the sale of FOX shares during the year of $182.5 million.

Cash Flow from Financing Activities

2018

Cash flows provided by financing activities totaled approximately $500.1 million for the year ended December 31, 2018, as compared to cash flows used in financing activities of $2.6 million for the year ended December 31, 2017. Our financing cash flows in 2018 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 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. Concurrently with the issuance of our Senior Notes, we refinanced our 2014 Credit Facility and reduced the amount outstanding on our term loan from $558.6 million to $500 million. In addition to activity on our credit facility, financing activities reflect the payment of our quarterly common share distributions ($86.3 million in 2018 and 2017) and preferred share distributions ($12.2 million in 2018 and $2.5 million in 2017).

2017

Cash flows used in financing activities totaled approximately $2.6 million for the year ended December 31, 2017, as compared to cash flows provided by financing activities of $208.7 million. Our financing cash flows in 2017 principally reflect the following:

- The payments of our shareholder distributions of $86.3 million related to our common shares and $2.5 million related to our Series A Preferred Shares;
- Distributions of $39.2 million paid during 2017 to Holders of the allocation interest related to the sale of our FOX shares;
- Proceeds of $96.4 million from a preferred stock offering completed in June 2017; and
- Net borrowings during the year of $31.9 million under our 2014 Credit Facility.

The decrease in cash flows from financing activities in 2017 as compared to 2016 is primarily due to the borrowings in the prior year related to the amendment of our credit facility, including borrowings under our 2016 Incremental Term Loan of $250 million, which was used to fund the acquisition of 5.11.

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2016

Cash flows provided by financing activities totaled approximately $208.7 million during the year ended December 31, 2016 principally reflecting the following:

- The payments of our shareholder distributions of $78.2 million in the year ended December 31, 2016;
- Distributions of $23.6 million paid during 2016 to noncontrolling shareholders as a result of the Liberty and ACI recapitalizations;
- Net borrowings during the year ended December 31, 2016 under our 2014 Credit Facility totaled $248.1 million, including borrowings under our 2016 Incremental Term Loan, which was used to fund the acquisitions of 5.11 during the third quarter, EWS and Baby Tula during the second quarter, and the repurchase of Ergobaby common stock from noncontrolling shareholders during the third quarter;
- Distributions of $23.8 million to the Holders of the allocation interest related to Sale Events (March and August Offerings of FOX, and September Disposition of Tridien) and a Holding Event (ACI); and
- Issuance of Trust common shares for net proceeds of $99.4 million.

On January 24, 2019, we paid our fourth quarter 2018 common share distribution to our shareholders of $21.6 million, and on January 30, 2019 we paid our fourth quarter 2018 distributions for our Series A and Series B Preferred Shares of $3.8 million.

Total Liabilities and Intercompany loans to our businesses

The following table summarizes the total liabilities and intercompany debt of our business as of December 31, 2018:

(in thousands)	Intercompany Loans	Total Liabilities
5.11	$ 203,702	$ 265,089
Ergobaby	54,780	71,317
Liberty	46,539	56,750
Manitoba Harvest	48,062	73,100
Velocity Outdoor	124,919	163,512
Advanced Circuits	76,638	96,776
Arnold	72,830	97,863
Clean Earth	207,672	286,062
Foam Fabricators	101,225	110,307
Sterno	263,498	322,375
Total	$ 1,199,865	$ 1,543,151
Corporate and eliminations	(1,199,865)	(90,158)
	$ —	$ 1,452,993

Each loan 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. 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 principle 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 revolving 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 $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. In February 2018, Sterno completed the acquisition of Rimports (refer to "Note C - Acquisition of Businesses" for a description of the transaction) for a purchase price of approximately $145 million. Concurrent with the closing of the acquisition of Rimports, we amended the Sterno Loan Agreement to provide for the advance of additional term loans in the aggregate amount of $136 million, and revolving loans in the amount of $10 million.

In the first quarter of 2018, we amended the credit facility with Arnold whereby the maturity date of the Term A loan was extended to February 2024, the maturity date of the Term B loan was extended to February 2025, and the financial covenants were updated to reflect changes in the company subsequent to acquisition in March 2012. Additionally, due to significant capital expenditures related to the implementation of a new ERP system, warehouse expansion and retail roll out, we have granted 5.11 waivers under their intercompany debt agreement effective as of the quarter ended September 30, 2017 through December 31, 2018. The waivers permit 5.11 to increase its allowable capital expenditure limits and exclude certain capital expenditures associated with the ERP system and warehouse expansion from the calculation of the fixed charge coverage ratio. We further amended the 5.11 intercompany debt agreement during 2018 to allow for an additional $5.0 million outstanding debt to be permitted under 5.11's Term B loan. Manitoba Harvest was not in compliance with the financial covenants under their intercompany loan agreement at December 31, 2017, and we amended the Manitoba Harvest intercompany debt agreement to grant a waiver to them through the quarter ended December 31, 2018. 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. Clean Earth was not in compliance with the financial covenants under their intercompany loan agreement at December 31, 2018 as a result of financing various add-on acquisitions during the year, and we amended the Clean Earth intercompany debt agreement to grant a waiver to them through the quarter ended December 31, 2019. Except as previously noted, all of our subsidiaries were in compliance with the financial covenants included within their intercompany credit arrangements at December 31, 2018.

Our primary source of cash is from the receipt of interest and principal on our outstanding loans to our businesses. Accordingly, we are dependent upon the earnings and cash flow of these businesses, which are available for (i) operating expenses; (ii) payment of principal and interest under our Credit Facility; (iii) payments to CGM due or potentially due pursuant to the revised MSA and the LLC Agreement; (iv) cash distributions to our shareholders; and (v) investments in future acquisitions. Payments made under (i) through (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 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, and (ii) a $500 million term loan. Under the 2018 Term Loan, advances under term loans can be either Eurodollar rate loans or base rate loans. Eurodollar rate term loans bear interest on the outstanding principal amount thereof for each interest period at a rate per annum based on the Eurodollar Rate for such interest period plus a margin of either 2.25% or 2.50%, based on the Consolidated Total Leverage Ratio. Base rate term loans bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus either 1.25% or 1.50%, based on the Consolidated Total Leverage Ratio. The initial 2018 Term Loan was advanced as a Eurodollar rate loan. Advances under the 2018 Revolving Line of Credit can be either Eurodollar rate loans or base rate loans. Eurodollar rate revolving loans bear interest on the outstanding principal amount thereof for each interest period at a rate per annum based on the London Interbank Offered Rate approved by the Agent (the “Eurodollar Rate”) for such interest period plus a margin ranging from 1.50% to 2.50%, based on the ratio of consolidated net indebtedness to adjusted consolidated earnings before interest expense, tax expense, and depreciation and amortization expenses for such period (the "Consolidated Total Leverage Ratio"). Base rate revolving loans bear interest on the outstanding principal amount thereof at a rate per annum equal to the highest of (i) Federal Funds rate plus 0.50%, (ii) the rate of interest in effect for such day as publicly announced from time to time by the Agent as its "prime rate", and (iii) Eurodollar Rate plus 1.0% (the "Base Rate"), plus a margin ranging from 0.50% to 1.50%, based on its Consolidated Total Leverage Ratio.

(Refer to "Note H - Debt" of the consolidated financial statements for a complete description of our 2018 Credit Facility.)

At December 31, 2018, we had Letters of Credit totaling $0.3 million outstanding under the 2018 Revolving Credit Facility. We had approximately $371.7 million in borrowing base availability under this facility at December 31, 2018.

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, we consummated the issuance and sale of $400 million aggregate principal amount of our 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. We used the net proceeds from the sale of the Notes to repay debt under our 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 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, beginning on November 1, 2018. The Notes are general senior unsecured obligations of the Company and are not guaranteed by our subsidiaries.

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 reflects required and actual financial ratios as of December 31, 2018 included as part of the affirmative covenants in our 2018 Credit Facility:

Description of Required Covenant Ratio	Covenant Ratio Requirement	Actual Ratio
Fixed Charge Coverage Ratio	Greater than or equal to 1.50:1.00	2.81:1.00
Total Secured Debt to EBITDA Ratio	Less than or equal to 3.50:1.00	2.54:1.00
Total Debt to EBITDA Ratio	Less than or equal to 5.00:1.00	3.96:1.00

We intend to use the availability under our Credit Facility and cash on hand to pursue acquisitions of additional businesses, to fund distributions and to provide for other working capital needs. We believe that we currently have sufficient liquidity and capital resources, which include amounts available under our 2018 Revolving Credit Facility, to meet our existing obligations, including quarterly distributions to our shareholders, as approved by our board of directors, over the next twelve months.

On September 16, 2014, we purchased an interest rate swap ("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 December 31, 2018, the Swap had a fair value loss of $2.1 million, principally reflecting the present value of future payments and receipts under the agreement. $0.6 million of Swap is reflected as a component of current liabilities and $1.5 million is reflected as a component of noncurrent liabilities in the consolidated balance sheet at December 31, 2018.

Interest Expense

We incurred interest expense totaling $55.6 million in the year ended December 31, 2018, as compared to $27.6 million in the year ended December 31, 2017 and $24.7 million for the year ended December 31, 2016. The components of interest expense on our outstanding debt are as follows (in thousands):

	Years ended December 31,		
	2018	2017	2016
Interest on credit facilities	$32,414	$23,940	$19,861
Interest on Senior Notes	22,489	—	—
Unused fee on Revolving Credit Facility	1,630	2,856	1,947
Amortization of original issue discount	729	1,037	802
Unrealized (gain) loss on interest rate derivatives [1]	(2,251)	(648)	1,539
Letter of credit fees	8	70	108
Other, net	558	368	394
Interest expense, net	$55,577	$27,623	$24,651
Average daily balance outstanding - credit facilities	$721,643	$597,114	$477,656
Effective interest rate - credit facilities	4.6%	4.7%	5.2%

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%.

[1] 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.

Income Taxes

Compass Diversified Holdings and Compass Group Diversified Holdings LLC are classified as partnerships for U.S. Federal income tax purposes and are not subject to income taxes. Each of the Company's majority owned subsidiaries are subject to Federal, state and in some cases, foreign income taxes. On December 22, 2017, the U.S. government enacted the Tax Act. The Tax Act reduced the U.S. federal corporate income tax rate from 35% to 21% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign sourced earnings. The Company made a reasonable estimate of the effects of the Tax Act on its existing deferred tax balances and the one-time transition tax as of December 31, 2017. The Company substantially completed its accounting for the revaluation of its net U.S. federal deferred tax liabilities and recorded a tax benefit of approximately $34.7 million in the fourth quarter of 2017. The one-time transition tax under the Tax Act is based on earnings and profits ("E&P) that were previously deferred from U.S. income taxes. For the year ended December 31, 2017, the provision for income taxes included provisional tax expense of $4.9 million related to the one-time transition tax liability of our foreign subsidiaries. The Company completed the calculation of the total E&P for these foreign subsidiaries during 2018 and recorded additional adjustments to the provisional amounts of $0.4 million that is recognized as a component of the provision for income taxes in the year ended December 31, 2018.

The Tax Act also subjects the Company to tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense. The Company has elected to account for GILTI as a period cost in the year the tax is incurred.

We recorded an income tax provision of $6.5 million with an annual effective rate of 187.1% during the year ended December 31, 2018, an income tax benefit of $40.7 million with an annual effective tax rate of (549.2)% during the year ended December 31, 2017, and $9.5 million in income tax expense with an effective tax rate of 15% during the year ended December 31, 2016. Our gains and losses incurred at the Company's parent, which is an LLC, are not tax deductible at the corporate level as those costs are passed through to the shareholders.

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The components of our income tax (benefit) expense as a percentage of income from continuing operations before income taxes for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Year ended December 31,		
	2018	2017	2016
United States Federal Statutory Rate	21.0 %	(35.0)%	35.0 %
State income taxes (net of Federal benefits)	(22.0)	(6.5)	0.6
Foreign income taxes	23.0	(18.4)	1.5
Expenses of Compass Group Diversified Holdings LLC representing a pass through to shareholders (1)	84.6	(3.3)	3.6
Impairment expense	—	69.4	—
Effect of gain on investment in FOX	—	26.6	(41.2)
Impact of subsidiary employee stock options	1.7	9.9	1.3
Domestic production activities deduction	—	(8.4)	(0.9)
Non-deductible acquisition costs	3.1	4.6	1.9
Effect of undistributed foreign earnings	—	(18.7)	4.2
Non-recognition of NOL carryforwards at subsidiaries	27.9	(18.1)	3.6
Adjustments to uncertain tax positions (2)	—	(124.0)	—
Utilization of tax credits	(15.9)	(40.1)	(0.7)
Effect of Tax Act - GILTI tax	49.5	—	—
Effect of Tax Act - remeasurement of deferred tax assets and liabilities (3)	0.5	(468.0)	—
Effect of Tax Act - transition tax on non-U.S. subsidiaries' earnings (3)	10.0	65.6	—
Other	3.7	15.2	6.1
Effective income tax rate	187.1 %	(549.2)%	15.0 %

(1) The effective income tax rate for each of the years presented includes losses at the Company’s parent, which is taxed as a partnership.

(2) Represents the effect of the reversal of an uncertain tax position at our 5.11 business that existed as of the acquisition date and was settled during the fourth quarter of 2017, resulting in a tax benefit of $9.2 million in our 2017 tax provision.

(3) The effect of the enactment of the Tax Act on our tax provision for the year ended December 31, 2017 was a benefit of $34.7 million related to the reduction in the U.S. federal corporate income tax rate from 35% to 21%, and tax expense of $4.9 million related to the one-time transition tax liability of our foreign subsidiaries. Our income before income taxes for 2017 was a loss of $7.4 million, and as a result, the effect from the Tax Act on the reconciliation in the table above was significant.

Reconciliation of Non-GAAP Financial Measures

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

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

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

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

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

Adjusted EBITDA – Is calculated utilizing the same calculation as described above in arriving at EBITDA further adjusted by: (i) non-controlling shareholder compensation, which generally consists of non-cash stock option expense; (ii) successful acquisition costs, which consist of transaction costs (legal, accounting, due diligences, etc.) incurred in connection with the successful acquisition of a business expensed during the period in compliance with ASC 805; (iii) management fees, which reflect fees due quarterly to our Manager in connection with our MSA; (iv) impairment charges, which reflect write downs to goodwill or other intangible assets; (v) gains or losses recorded in connection with changes in the fair value of our investment in FOX; (vi) gains or losses recorded in connection with the sale of fixed assets; and (vii) gains or losses recognized upon the sale of a business.

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

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

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
Year ended December 31, 2018

	Corporate	5.11	Ergobaby	Liberty	Manitoba Harvest	Velocity Outdoor	Advanced Circuits	Arnold	Clean Earth	Foam	Sterno
Net income (loss)	$(12,848)	$(12,079)	$4,937	$1,161	$(5,492)	$(4,458)	$15,029	$(740)	$(854)	$1,103	$12,451
Adjusted for:											
Provision (benefit) for income taxes	—	(2,180)	1,634	409	(1,460)	(598)	3,736	1,731	(2,458)	1,152	4,582
Interest expense, net	54,994	14	1	—	13	281	(46)	—	319	—	1
Intercompany interest	(100,246)	17,486	4,674	4,233	5,056	9,298	7,402	6,213	16,482	8,228	21,174
Depreciation and amortization	2,107	21,898	8,523	1,620	6,301	12,352	3,310	6,384	24,205	10,973	27,385
EBITDA	(55,993)	25,139	19,769	7,423	4,418	16,875	29,431	13,588	37,694	21,456	65,593
Gain on sale of business	(1,258)	—	—	—	—	—	—	—	—	—	—
(Gain) loss on sale of fixed assets	—	(194)	—	92	15	47	—	55	430	73	19
Non-controlling shareholder compensation	—	2,183	869	45	711	1,009	23	(167)	1,553	848	1,901
Acquisition expenses	115	—	—	—	—	1,362	—		1,682	1,552	632
Integration services fee	—	—	—	—	—	750	—	—	—	1,969	—
Earnout provision adjustment	—	—	—	—	—	—	—	—	—	—	(4,800
Inventory adjustment	—	4,175	—	—	—	—	—	—	—	—	—
Loss on foreign currency transaction and other	4,083	—	—	—	—	—	—	—	—	—	—
Management fees	38,786	1,000	500	500	350	500	500	500	500	658	500
Adjusted EBITDA	$(14,267)	$32,303	$21,138	$8,060	$5,494	$20,543	$29,954	$13,976	$41,859	$26,556	$63,845

Adjusted EBITDA
Year ended December 31, 2017

	Corporate	5.11	Ergobaby	Liberty	Manitoba Harvest	Velocity Outdoor	ACI	Arnold	Clean Earth	Foam	Sterno	Conso
Net income (loss)	$(4,577)	$(9,405)	$16,674	$4,861	$(12,359)	$7,634	$17,503	$(10,740)	$13,309		$10,712	$33,6
Adjusted for:												
Provision (benefit) for income taxes	—	(12,492)	917	531	(1,469)	(11,274)	(2,518)	(2,337)	(15,469)		3,432	(40,6
Interest expense, net	27,047	53	—	—	41	167	(12)	—	327		—	27,62
Intercompany interest	(66,811)	14,521	5,990	4,029	4,150	4,590	8,171	6,996	13,468		4,896	—
Depreciation and amortization	2,150											