



UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2006

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMPASS DIVERSIFIED TRUST

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

0-51937

(Commission file number)

57-6218917

(I.R.S. employer identification number)

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

0-51938

(Commission file number)

20-3812051

(I.R.S. employer identification number)

Sixty One Wilton Road  
Second Floor  
Westport, CT 06880  
(203) 221-1703

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 1, 2006, there were 20,450,000 shares of  
Compass Diversified Trust outstanding.

**COMPASS DIVERSIFIED TRUST**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the period ended September 30, 2006**

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**NOTE TO READER**

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

- the "Trust" refers to Compass Diversified Trust;
- "businesses" refers to, collectively, the initial businesses and Anodyne Medical Device, Inc. and the subsidiaries controlled by the Company;
- the "Company" refers to Compass Group Diversified Holdings LLC;
- the "Manager" refers to Compass Group Management LLC ("CGM");
- the "initial businesses" refers to, collectively, CBS Personnel Holdings, Inc., Crosman Acquisition Corporation, Compass AC Holdings, Inc. and Silvue Technologies Group, Inc.
- the "Trust Agreement" refers to the amended and restated trust agreement of the Trust dated as of April 25, 2006;
- the "LLC Agreement" refers to the amended and restated operating agreement of the Company dated as of April 25, 2006; and
- "we," "us" and "our" refer to the Trust, the Company and the businesses together.

## FORWARD-LOOKING STATEMENTS

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

- our ability to successfully operate our businesses on a combined basis, and to effectively integrate and improve any future acquisitions;
- our ability to remove CGM and CGM’s right to resign;
- the Trust and our organizational structure, which may limit our ability to meet our dividend and distribution policy;
- our ability to service and comply with the terms of our indebtedness;
- our cash flow available for distribution and our ability to make distributions in the future to our shareholders;
- our ability to pay the management fee, profit allocation when due and to pay the put price if and when due;
- our ability to make and finance future acquisitions;
- our ability to implement our acquisition and management strategies;
- the regulatory environment in which our businesses operate;
- trends in the industries in which our businesses operate;
- changes in general economic or business conditions or economic or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;
- environmental risks affecting the business or operations of our businesses;
- our and CGM’s ability to retain or replace qualified employees of our businesses and CGM;
- costs and effects of legal and administrative proceedings, settlements, investigations and claims; and
- extraordinary or force majeure events affecting the business or operations of our businesses.

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

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

**PART I**  
FINANCIAL INFORMATION

**ITEM 1. FINANCIAL STATEMENTS**

Compass Diversified Trust  
Condensed Consolidated Balance Sheets

(in thousands)	September 30, 2006 (Unaudited)	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,049	\$ 100
Accounts receivable, less allowances of \$4,738 at September 30, 2006	91,142	—
Inventories	22,162	—
Prepaid expenses and other current assets	10,140	3,308
Current assets of discontinued operations	542	—
	<u>137,035</u>	<u>3,408</u>
Total current assets	137,035	3,408
Property, plant and equipment, net	22,110	—
Goodwill	189,448	—
Intangible assets, net	143,678	—
Deferred debt issuance costs, less accumulated amortization of \$473 at Sep. 30, 2006	5,834	—
Other non-current assets	12,401	—
Assets of discontinued operations	466	—
	<u>466</u>	<u>—</u>
<b>Total assets</b>	<b>\$ 510,972</b>	<b>\$ 3,408</b>
<b>Liabilities and stockholders' equity (deficit)</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 65,074	\$ 1
Distribution payable	5,368	—
Due to related party	531	3,308
Working capital facility	11,697	—
Current liabilities of discontinued operations	625	—
	<u>83,295</u>	<u>3,309</u>
Total current liabilities	83,295	3,309
Supplemental put obligation	8,016	—
Long-term debt	60,000	—
Deferred income taxes	42,842	—
Other non-current liabilities	17,544	—
	<u>17,544</u>	<u>—</u>
<b>Total liabilities</b>	<b>211,697</b>	<b>3,309</b>
Minority interests	25,956	100
<b>Stockholders' equity (deficit)</b>		
Trust shares, no par value, 500,000 authorized; 20,450 shares issued and outstanding	275,092	—
Accumulated earnings (deficit)	(1,773)	(1)
	<u>273,319</u>	<u>(1)</u>
Total stockholders' equity (deficit)	273,319	(1)
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 510,972</b>	<b>\$ 3,408</b>

See notes to condensed consolidated financial statements.

**Compass Diversified Trust**  
**Condensed Consolidated Statement of Operations**  
(unaudited)

(in thousands, except per share data)	<b>Three-months Ended September 30, 2006</b>	<b>Nine-months Ended September 30, 2006</b>
Net sales	\$ 183,837	\$ 278,520
Cost of sales	138,875	209,752
<b>Gross profit</b>	<b>44,962</b>	<b>68,768</b>
Operating expenses:		
Staffing expense	13,468	20,439
Selling, general and administrative expenses	15,563	23,911
Supplemental put expense	8,016	8,016
Fees to manager	1,928	2,814
Research and development expense	279	1,553
Amortization expense	2,865	4,156
<b>Operating income</b>	<b>2,843</b>	<b>7,879</b>
Other income (expense):		
Interest income	353	447
Interest expense	(2,340)	(3,414)
Amortization of debt issuance costs	(321)	(479)
Other income, net	205	594
<b>Income from continuing operations before income taxes and minority interests</b>	<b>740</b>	<b>5,027</b>
Provision for income taxes	3,582	5,163
Minority interest	1,187	1,896
<b>Loss from continuing operations</b>	<b>(4,029)</b>	<b>(2,032)</b>
Income from discontinued operations, net of income taxes	145	260
<b>Net loss</b>	<b>\$ (3,884)</b>	<b>\$ (1,772)</b>
Basic and fully diluted loss per share	<u><u>\$ (0.19)</u></u>	<u><u>\$ (0.18)</u></u>
Weighted average number of shares of trust stock outstanding — basic and fully diluted	<u>20,120</u>	<u>10,031</u>
Cash dividends declared per share	<u><u>\$ 0.2625</u></u>	<u><u>\$ 0.3952</u></u>

See notes to condensed consolidated financial statements.

**Compass Diversified Trust**  
**Condensed Consolidated Statement of Stockholders' Equity**  
(unaudited)

(in thousands )	<u>Number of Shares</u>	<u>Amount</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
<b>Balance — December 31, 2005</b>	—	\$ —	\$ (1)	\$ (1)
Issuance of Trust shares, net of offering costs	19,500	269,947	—	269,947
Issuance of Trust shares —Anodyne acquisition	950	13,100		13,100
Dividend declared	—	(5,368)		(5,368)
Dividend paid		(2,587)		(2,587)
Net loss	—		(1,772)	(1,772)
<b>Balance — September 30, 2006</b>	<u>20,450</u>	<u>\$ 275,092</u>	<u>\$ (1,773)</u>	<u>\$ 273,319</u>

See notes to condensed consolidated financial statements.

**Compass Diversified Trust**  
**Condensed Consolidated Statement of Cash Flows**  
**(unaudited)**

(in thousands)	<b>Nine Months Ended September 30, 2006</b>
<b>Cash flows from operating activities:</b>	
Net loss from continuing operations	\$ (2,032)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation of property and equipment	1,526
Amortization expense	4,156
Amortization of debt issuance costs	479
Supplemental put expense	8,016
Minority interests	1,896
Loan forgiveness accrual	1,072
Deferred taxes	(624)
In-process research and development charge	1,120
Other	(389)
Changes in operating assets and liabilities, net of acquisition:	
Increase in accounts receivable	(4,357)
Increase in inventories	(8,323)
Decrease in prepaid expenses and other current assets	408
Increase in accounts payable and accrued expenses	10,319
Decrease in due to related party	(3,308)
Decrease in net assets of discontinued operations	338
Net cash provided by operating activities	10,297
<b>Cash flows from investing activities:</b>	
Acquisition of initial businesses, net of cash acquired	(310,759)
Purchases of property and equipment	(4,031)
Anodyne acquisition	(31,050)
Net cash used in investing activities	(345,840)
<b>Cash flows from financing activities:</b>	
Proceeds from the issuance of debt	71,574
Proceeds from the issuance of trust shares, net	284,962
Debt issuance costs	(6,307)
Distributions paid	(2,587)
Other	756
Net cash provided by financing activities	348,398
Net increase in cash and cash equivalents	12,855
Foreign currency adjustment	94
Cash and cash equivalents — beginning of period	100
Cash and cash equivalents — end of period	\$ 13,049
<b>Supplemental disclosure of non-cash activities:</b>	
Income taxes paid	\$ 6,940
Interest paid	\$ 2,638
Distribution declared	\$ 5,368

See notes to condensed consolidated financial statements.



**Compass Diversified Trust**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2006**  
**(unaudited)**

**Note A — Organization and Business Operations**

Compass Diversified Trust, a Delaware statutory trust (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. Compass Group Management LLC, a Delaware limited liability company (“CGM” or the “Manager”), was the sole owner of 100% of the Interests of the Company (as defined in the Company’s operating agreement, dated as of November 18, 2005, which were subsequently reclassified as the “Allocation Interests” pursuant to the Company’s amended and restated operating agreement, dated as of April 25, 2006 (as amended and restated, the “LLC Agreement”)) (see Note K — Related parties).

The Trust and the Company were formed to acquire and manage a group of small and middle-market businesses headquartered in the United States. In accordance with the amended and restated trust agreement, dated as of April 25, 2006 (the “Trust Agreement”), the Trust is sole owner of 100% of the Trust Interests (as defined in the 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. Compass Group Diversified Holdings, LLC, a Delaware limited liability company is the operating entity with a board of directors and other corporate governance responsibilities, similar to that of a Delaware corporation.

On May 16, 2006, the Company completed its initial public offering of 13,500,000 shares of the Trust at an offering price of \$15.00 per share (“the IPO”). Total net proceeds from the IPO, after deducting the underwriters’ discounts, commissions and financial advisory fee, were approximately \$188.3 million. On May 16, 2006, the Company also completed the private placement of 5,733,333 shares to Compass Group Investments, Inc (“CGI”) for approximately \$86.0 million and completed the private placement of 266,667 shares to Pharos I LLC, an entity controlled by Mr. Massoud, the Chief Executive Officer of the Company, and owned by our management team, for approximately \$4.0 million. CGI also purchased 666,667 shares for \$10.0 million through the IPO.

On May 16, 2006, the Company also entered into a Financing Agreement, (the “Financing Agreement”), which is a \$225.0 million secured credit facility with Ableco Finance LLC, as collateral and administrative agent. Specifically, the Financing Agreement provides for a \$60.0 million revolving line of credit commitment, a \$50.0 million term loan and a \$115.0 million delayed draw term loan commitment. Outstanding indebtedness under the Financing Agreement will mature on May 16, 2011 (see Note H — Debt).

The Company used the net proceeds of the IPO, the separate private placements that closed in conjunction with the IPO, and initial borrowings under the Company’s Financing Agreement to make loans to and acquire controlling interests in each of the following businesses (the “initial businesses”), which controlling interests were acquired from certain subsidiaries of CGI and from certain minority owners of each initial business. The Company paid an aggregate of approximately \$139.3 million for the purchase of the controlling interests in the following initial businesses (see Note C):

- a controlling interest in CBS Personnel Holdings, Inc (“CBS Personnel”) was purchased for approximately \$54.6 million, representing at the time of purchase approximately 97.6% of the outstanding stock of CBS Personnel on a primary basis and approximately 94.4% on a fully diluted basis, after giving effect to the exercise of vested and in the money options and vested non-contingent warrants;
- a controlling interest in Crosman Acquisition Corporation (“Crosman”) was purchased for approximately \$26.1 million representing approximately 75.4% of the outstanding stock of Crosman on a primary basis and 73.8% on a fully diluted basis;
- a controlling interest in Compass AC Holdings, Inc. (“Advanced Circuits or ACI”) was purchased for approximately \$35.4 million, representing approximately 70.2% of the outstanding stock of Advanced Circuits on a primary and fully diluted basis; and
- a controlling interest in Silvue Technologies Group, Inc. (“Silvue”) was purchased for approximately \$23.2 million, representing approximately 73.0% of the outstanding stock of Silvue on a primary and fully diluted basis.

On July 31, 2006 the Company entered into a Stock and Note Purchase Agreement with CGI and Compass Medical Mattresses Partners, LP (the “Seller”), a wholly- owned, indirect subsidiary of CGI, to purchase approximately 47.3% of the outstanding capital stock, on a fully-diluted basis, of Anodyne Medical Device, Inc. (“Anodyne”), which represents approximately 69.8% of the voting power of all Anodyne stock. Pursuant to the same agreement, the Company also acquired from the Seller all of the outstanding debt under Anodyne’s credit facility (the “Original Loans”). On the same date, the Company entered into a Note Purchase and Sale Agreement with CGI and the Seller for the purchase from the Seller of a secured promissory note (the “Promissory Note”) issued by a borrower controlled by Anodyne’s chief executive officer,( see Note K — Related Party Transactions).

The purchase price aggregated approximately \$31.1 million for the Anodyne stock, the Original Loans and the Promissory Note, which purchase price was paid by the Company in the form of \$17.3 million in cash and 950,000 shares of newly issued shares in the Trust. The shares were valued at \$13.1 million or \$13.77 per share, the average closing price of the shares on the NASDAQ Global Market for the ten trading days ending on July 27, 2006. Transaction expenses were approximately \$700,000. The cash consideration was funded through available cash and a drawing on our existing credit facility of approximately \$18.0 million.

Concurrent with the closing of the acquisition of Anodyne, the Company amended Anodyne’s credit facility and made available to Anodyne a \$5.0 million secured revolving loan commitment and secured term loans in the amount of \$8.75 million. The loans to Anodyne are secured by security interests in all of the assets of Anodyne and the pledge of the equity interests in Anodyne’s subsidiaries.

## **Note B — Summary of Significant Accounting Policies**

### ***Basis of Presentation***

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are in the opinion of management, necessary for the fair statement of financial condition and results of operations for the interim period. The results of operations for the quarter and nine months ended September 30, 2006 represents the results of operations of the initial businesses from May 16, 2006 to September 30, 2006 and the results of operations of Anodyne from August 1, 2006 to September 30, 2006, and therefore are not indicative of the results to be expected for the full year .

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Trust and the Company, as well as the initial businesses as of May 16, 2006, and Anodyne as of August 1, 2006, all of which are controlled by the Company. All inter-company balances and transactions have been eliminated in consolidation. The operations of the initial businesses are included in the Company’s consolidated results from May 16, 2006, and Anodyne from August 1, 2006, the dates of acquisition.

The acquisition of businesses that the Company owns or controls more than a 50% share of the voting interest are accounted for under the purchase method of accounting. The amount assigned to the identifiable assets acquired and the liabilities assumed is based on the estimated fair values as of the date of acquisition, with the remainder, if any, recorded as goodwill.

### ***Use of estimates***

The preparation of financial statements in conformity with generally accepted accounting principles generally requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Revenue recognition***

In accordance with Staff Accounting Bulletin 104, *Revenue Recognition*, the Company recognizes revenues when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sellers price to the buyer is fixed and determinable, and collection is reasonably assured. Shipping and handling costs are charged to operations when incurred and are classified as a component of cost of sales.

### Crosman

Revenue is recognized upon shipment of product to the customer, net of sales returns and allowances. Appropriate reserves are established for anticipated returns and allowances based on past experience. One customer accounted for approximately 35% of Crosman's sales from May 16, 2006 to September 30, 2006 and represents approximately 43% of its accounts receivable balance as of September 30, 2006.

Cooperative charges and sales rebates to distributors are recorded at the time of shipment based upon historical experience. Changes in such allowances may be required if future rebates differ from historical experience. Cooperative charges recorded as a reduction of net sales were \$0.2 million for the period ended September 30, 2006.

### CBS Personnel

Revenue from temporary staffing services is recognized at the time services are provided by the Company employees and is reported based on gross billings to customers. Revenue from employee leasing services is recorded at the time services are provided and is reported on a net basis (gross billings to clients less worksite employee salaries and payroll -related taxes). Revenue is recognized for permanent placement services at the employee start date. Permanent placement services are fully guaranteed to the satisfaction of the customer for a specified period.

### Advanced Circuits

Revenue is recognized upon shipment of product to the customer, net of sales returns and allowances. Appropriate reserves are established for anticipated returns and allowances based on past experience. Revenue is typically recorded at F.O.B. shipping point but for sales of certain custom products, revenue is recognized upon completion and customer acceptance.

### Silvue

Revenue is recognized upon shipment of product to the customer, net of sales returns and allowances. Appropriate reserves are established for anticipated returns and allowances based on past experience. For certain UK customers, revenue is recognized after receipt by the customer as the terms are F.O.B. destination.

### Anodyne

Revenue is recognized upon shipment of product to the customer, net of sales returns and allowances. Appropriate reserves are established for anticipated returns and allowances based on past experience. Revenue is typically recorded at F.O.B. shipping point but for sales of certain custom products, revenue is recognized upon completion and customer acceptance.

### **Cash and cash equivalents**

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

### **Inventories**

Inventories consist of manufactured goods and purchased goods acquired for resale. Manufactured inventory costs include raw materials, direct and indirect labor and factory overhead. Inventories are stated at lower of cost or market and are determined using the first-in, first-out method.

### **Property, plant and equipment**

Property, plant and equipment, is recorded at cost. The cost of major additions or betterments is capitalized, while maintenance and repairs that do not improve or extend the useful lives of the related assets are expensed as incurred. Depreciation is provided principally on the straight-line method over estimated useful lives. Leasehold improvements are amortized over the life of the lease or the life of the improvement, whichever is shorter.

The useful lives are as follows:

Machinery and Equipment	3 to 5 years
Office Furniture and Equipment	3 to 5 years
Buildings and Building Improvements	2 to 15 years
Vehicles	2 to 3 years
Leasehold Improvements	Shorter of useful life or lease term

Property, plant and equipment and other long-lived assets are evaluated for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated discounted present value of the expected future cash flows from using the asset.

### **Goodwill and intangible assets**

Goodwill represents the difference between purchase cost and the fair value of net assets acquired in business acquisitions. Goodwill is tested for impairment at least annually and impairments, if any, are charged directly to earnings. Assumptions used in the testing include, but are not limited to the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows current market information as well as historical factors are considered. Intangible assets, which include customer relations, trade names, technology and licensing agreements that are subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable.

### **Deferred charges**

Deferred charges representing the costs associated with the issuance of debt instruments are amortized over the life of the related debt instrument.

### **Insurance reserves**

Insurance reserves represent estimated costs of self insurance associated with product liability and workers' compensation at the Company's subsidiary Crosman and estimated costs of self insurance for workers' compensation at the Company's subsidiary CBS Personnel. Stop loss coverage is maintained for individual and aggregate product liability claims. The reserves for workers' compensation are based upon actuarial assumptions of individual case estimates and incurred but not reported ("IBNR") losses. At September 30, 2006, the current portion of these reserves are included as a component of accounts payable and accrued liabilities and the non-current portion is included as a component of other non-current liabilities.

### **Supplemental Put**

As distinct from its role as Manager of the Company, CGM is also the owner of 100% of the allocation interests in the Company. Concurrent with the IPO, CGM and the Company entered into a Supplemental Put Agreement, which may require the Company to acquire these allocation interests upon termination of the Management Services Agreement. Essentially, the put rights granted to CGM require the Company to acquire CGM's allocation interests in the Company at a price based on a percentage of the increase in fair value in the Company's businesses over its basis in those businesses. Each fiscal quarter the Company estimates the fair value of its businesses for the purpose of determining its potential liability associated with the Supplemental Put Agreement. Any change in the potential liability is accrued currently as a non-cash adjustment to earnings. For the three months ended September 30, 2006, the Company recognized approximately \$8.0 million in non-cash expense related to the Supplemental Put Agreement.

### **Warranty reserves**

The Company's subsidiary, Crosman, generally warrants its air-gun product for one year and its soft air products for 90 days. The warranty accrual is based on the prior nine months historical warranty activity and is included in accrued expenses. The activity in the product warranty reserve from May 16, 2006 (inception) to September 30, 2006 is as follows: (in thousands)

Balance at May 16, 2006	\$ 724
Accruals for warranties issued during period	1,219
Settlements made during the period	(1,137)
Balance at September 30, 2006	<u>\$ 806</u>

### **Income taxes**

Deferred income taxes are calculated under the liability method. Deferred income taxes are provided for the differences between the basis of assets and liabilities for financial reporting and income tax purposes at the enacted tax rates. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

The effective tax rate differs from the statutory rate of 34%, principally due to state taxes and foreign tax credits.

### **Earnings per share**

Basic and diluted income per share is computed on a weighted average basis from the period January 1, 2006 through September 30, 2006. The weighted average number of trust shares outstanding was computed based on 1,000 shares of allocation interests outstanding for the period January 1, 2006 through September 30, 2006, 19,500,000 trust shares, for the period from May 16, 2006 through September 30, 2006 and 950,000 additional trust shares (issued in connection with the acquisition of Anodyne) for the period from August 1, 2006 through September 30, 2006.

### **Advertising costs**

All advertising costs are expensed in operations as incurred. Advertising costs were \$1.5 million and \$2.2 million for the three and nine month periods ended September 30, 2006.

### **Research and development**

Research and development costs are charged to operations when incurred. Research and development expense was approximately \$0.3 million and \$1.6 million for the three and nine months ended September 30, 2006 which includes approximately \$1.1 million of in-process research and development costs charged to expense in connection with the purchase asset allocation of the Company's subsidiary, Silvue on May 16, 2006.

### **Recent accounting pronouncements**

On July 13, 2006, the Financial Accounting Standards Board issued Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, which is effective January 1, 2007. The purpose of FIN 48 is to clarify and set forth consistent rules for accounting for uncertain tax positions in accordance with FAS 109, *Accounting for Income Taxes*. The cumulative effect of applying the provisions of this interpretation is required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. The Company is in the process of reviewing and evaluating FIN 48, and therefore the ultimate impact of its adoption is not yet known.

In September 2006, the U.S. Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108 ("SAB 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 eliminates the diversity of practice surrounding how public companies quantify financial statement misstatements. It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. We do not expect SAB 108 to have a material impact on our financial condition or results of operations. SAB 108 must be applied to annual financial statements for their first fiscal year ending after November 15, 2006.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. We have not yet determined the impact that the implementation of SFAS No. 157 will have on our results of operations or financial condition. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). This standard requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. We are currently evaluating the impact that the implementation of SFAS No. 158 will have on our financial statements. The new reporting requirements and related new footnote disclosure rules of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The new measurement date requirement applies for fiscal years ending after December 15, 2008. We have determined that this statement is not applicable to the Company.

## Note C — Acquisition of businesses

The Company used the proceeds from its initial public offering and private placements to acquire controlling interests in its initial businesses for cash from CGI and minority interest holders. On August 1, 2006, the Company purchased a controlling interest in Anodyne, which manufactures and distributes medical mattresses.

The acquisition of majority interests in the Company's businesses have been accounted for under the purchase method of accounting. The preliminary purchase price allocation is based on estimates of the fair value of the assets acquired and liabilities assumed. The fair values assigned to the acquired assets were developed from information supplied by management and valuations supplied by independent appraisal experts.

### *Allocation of Purchase Price- initial businesses*

The acquisitions have been accounted for under the purchase method of accounting. The results of operations of each of the initial businesses and Anodyne are included in the condensed consolidated financial statements since May 16, 2006 and August 1, 2006, respectively. In accordance with SFAS No. 141 a deferred tax liability was recorded to reflect the net increase in the financial accounting basis of the assets acquired over their related income tax basis (see Note I). The initial purchase price allocation may be adjusted within one year of the purchase date for changes in estimates of the fair value of assets acquired and liabilities assumed.

As part of the acquisition of the initial businesses the Company allocated approximately \$100.7 million of the purchase price to customer relations in accordance with EITF 02-17. "Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination." The Company will amortize the amount allocated to customer relationships over a period ranging from 9 to 16 years. In addition the Company allocated approximately \$34.4 million of the purchase price to trade names and technology. Trade names totaling approximately \$26.9 million of the allocation have indefinite lives.

The estimated fair value of assets acquired and liabilities assumed that were accounted for as a business combination relating to the acquisitions of the initial businesses are summarized below.

<i>(in thousands)</i>	<u>CBS Personnel</u>	<u>Crosman</u>	<u>ACI</u>	<u>Silvue</u>	<u>Total</u>
<b>Assets:</b>					
Current assets (1)	\$ 65,033	\$ 34,793	\$ 5,737	\$ 6,597	\$ 112,160
Property, plant and equipment	2,617	9,983	3,158	2,137	17,895
Intangible assets	71,200	19,150	20,700	26,920	137,970
Goodwill	60,073	28,783	59,563	18,034	166,453
Other assets	1,927	3,500	592	517	6,536
<b>Total assets</b>	<b>200,850</b>	<b>96,209</b>	<b>89,750</b>	<b>54,205</b>	<b>441,014</b>
<b>Liabilities:</b>					
Current Liabilities	34,741	15,442	5,669	6,668	62,520
Other liabilities	108,149	48,944	46,396	21,891	225,380
Minority interests	3,401	5,703	2,259	2,427	13,790
<b>Total liabilities and minority interests</b>	<b>146,291</b>	<b>70,089</b>	<b>54,324</b>	<b>30,986</b>	<b>301,690</b>
Cost of net assets acquired	54,559	26,120	35,426	23,219	139,324
Loans to initial businesses	73,228	46,477	45,606	14,294	179,605
	<u>\$ 127,787</u>	<u>\$ 72,597</u>	<u>\$ 81,032</u>	<u>\$ 37,513</u>	<u>\$ 318,929</u>

(1) – Includes approximately \$8.2 million in cash.

### Allocation of Purchase Price- Anodyne

The estimated fair value of assets acquired and liabilities assumed that were accounted for as a business combination relating to the acquisition of Anodyne is summarized below.

<i>(in thousands)</i>	<u>Anodyne</u>
<b>Assets:</b>	
Current assets	\$ 6,347
Property, plant and equipment	1,909
Intangible assets	10,890
Goodwill	21,507
Other assets	581
Total assets	<u>41,234</u>
<b>Liabilities:</b>	
Current liabilities	2,991
Other liabilities	12,636
Minority interests	<u>10,593</u>
Total liabilities and minority interests	26,220
Cost of net assets acquired	15,014
Note purchase	5,286
Loans to Anodyne	10,750
	<u>\$ 31,050</u>

### Unaudited Pro Forma Information

The following unaudited pro forma data for the nine months ended September 30, 2006 gives effect to the acquisition of the initial businesses and the acquisition of Anodyne, all as described above, as if the acquisitions had been completed as of January 1, 2006. The pro forma data gives effect to actual operating results and adjustments to interest expense, amortization and minority interests in the acquired businesses. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transactions had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representative of these results for any future period.

### Nine months ended September 30, 2006

<i>(in thousands, except per share data)</i>	<u>Total</u>
Net sales	\$ 547,622
Income from continuing operations before income taxes and minority interests	\$ 14,086
Net income	\$ 838
Basic and fully diluted income per share	\$ 0.04

**Note D — Business segment data**

At September 30, 2006 the Company has five reportable business segments which represent the initial businesses acquired on May 16, 2006 and Anodyne acquired on August 1, 2006. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

A description of each of the reportable segments and the types of products and services from which each segment derives its revenues is as follows:

- CBS Personnel, a human resources outsourcing firm, is a provider of temporary staffing services in the United States. CBS Personnel serves over 3,500 corporate and small business clients. CBS Personnel also offers employee leasing services, permanent staffing and temporary-to-permanent placement services.
- Crosman, a recreational products company, is a manufacturer and distributor of recreational air rifle products and accessories as well as soft-air products. Its products are sold primarily in North America through approximately 500 retailers.
- ACI, an electronic components manufacturing company, is a provider of prototype and quick-turn printed circuit boards. ACI manufactures and delivers custom printed circuit boards to over 4,000 customers in the United States.
- Silvue, a global hard-coatings company, is a developer and producer of proprietary, high performance liquid coating system used in the eye-ware, aerospace, automotive and industrial markets. Silvue has sales and distribution operations in the United States, Europe and Asia as well as manufacturing operations in the United States and Asia.
- Anodyne, a medical support surfaces company, is a manufacturer of patient positioning devices primarily used for the prevention and treatment of pressure wounds experienced by patients with limited or no mobility. Anodyne is headquartered in California and its product is sold primarily in North America.

The tabular information that follows shows data of reportable segments reconciled to amounts reflected in the Consolidated Financial Statements. The Company does not consider the purchase accounting adjustments associated with its purchase of its businesses in assessing the performance of individual reporting units. These adjustments are included as part of the reconciliations of segment amounts to consolidated amounts. The operations of each of the businesses are included in consolidated operating results as of their date of acquisition. There are no inter-segment transactions.

A disaggregation of the Company's consolidated revenue and other financial data for the three and nine month periods ended September 30, 2006 is presented below, (in thousands).

**Net sales of business segments**

	Three months ended September 30, 2006	Nine months ended September 30, 2006
CBS Personnel	\$ 136,993	\$ 207,882
Crosman	24,764	39,253
ACI	12,513	18,956
Silvue	5,463	8,325
Anodyne	4,104	4,104
Total	<u>183,837</u>	<u>278,520</u>
Reconciliation of segment revenues to consolidated net sales:		
Corporate and other	<u>—</u>	<u>—</u>
Total consolidated net sales	<u>\$ 183,837</u>	<u>\$ 278,520</u>



**Profit of business segments (1).**

	Three months ended September 30 2006	Nine months ended September 30 2006
CBS Personnel	\$ 5,617	\$ 8,252
Crosman	3,822	6,612
ACI	3,754	5,609
Silvue	1,699	2,391
Anodyne	140	140
Total	<u>15,032</u>	<u>23,004</u>
Reconciliation of segment profit to consolidated income from continuing operations before income taxes and minority interests:		
Interest expense, net	(1,987)	(2,967)
Other income	205	594
Corporate and other (2)	(12,510)	(15,604)
Total consolidated income from continuing operations before income taxes and minority interests	<u>\$ 740</u>	<u>\$ 5,027</u>

(1) Segment profit represents operating income

(2) Corporate and other consists of charges at the corporate level and purchase accounting adjustments

**Accounts receivable and allowances**

	<u>Accounts receivable</u> September 30, 2006	<u>Allowances</u> September 30, 2006
CBS Personnel	\$ 65,224	\$ (2,638)
Crosman	21,039	(1,815)
ACI	3,555	(222)
Silvue	2,625	(8)
Anodyne	3,437	(55)
Total	<u>95,880</u>	<u>(4,738)</u>
Reconciliation of segments to consolidated amount:		
Corporate and other	—	—
Total	<u>95,880</u>	<u>\$ (4,738)</u>
Allowance for doubtful accounts and other	(4,738)	
Total consolidated net accounts receivable	<u>\$ 91,142</u>	

**Goodwill and identifiable assets of business segments**

	<u>Goodwill</u>	<u>Identifiable assets</u>	<u>Depreciation and amortization expense for the nine months ended</u>
	September 30, 2006	September 30, 2006 (3)	September 30, 2006
CBS Personnel	\$ 59,294	\$ 17,902	\$ 843
Crosman	32,377	47,275	879
ACI	50,659	23,863	1,226
Silvue	11,270	16,650	420
Anodyne	17,585	14,193	171
Total	<u>171,185</u>	<u>119,883</u>	<u>\$ 3,539</u>
Reconciliation of segments to consolidated amount:	—		
Corporate and other identifiable assets	—	110,499	2,622
Goodwill carried at Corporate level	18,263	—	—
Total	<u>\$ 189,448</u>	<u>\$ 230,382</u>	<u>\$ 6,161</u>

(3) Not including accounts receivable scheduled above

**Note E — Inventories**

Inventories are stated at the lower of cost or market determined on the first-in, first-out method. Cost includes raw materials, direct labor and manufacturing overhead. Market value is based on current replacement cost for raw materials and supplies and on net realizable value for finished goods. Inventory consisted of the following (in thousands):

	September 30, 2006
Raw materials and supplies	\$ 9,274
Finished goods	12,920
Less: obsolescence reserve	(32)
	<u>\$ 22,162</u>

**Note F — Property, plant and equipment**

Property, plant and equipment is comprised of the following (in thousands)

	September 30, 2006
Land	\$ 256
Machinery and equipment	12,017
Office furniture and equipment	4,842
Buildings and building improvements	5,053
Leasehold improvements	1,468
	<u>23,636</u>
Less: Accumulated depreciation	(1,526)
	<u>\$ 22,110</u>

Depreciation expense was \$0.9 million and \$1.5 million during the three and nine month periods ended September 30, 2006.

## Note G — Goodwill and other intangible assets

A reconciliation of the change in the carrying value of goodwill for the period ended September 30, 2006 is as follows (in thousands):

Balance at beginning of period	\$ —
Acquisition of initial businesses	166,453
Increase in goodwill attributable to an earn-out provision	1,528
Anodyne acquisition	21,507
Balance at September 30, 2006	<u>\$ 189,448</u>

Other Intangible assets subject to amortization are comprised of the following at September 30, 2006, (in thousands):

Customer and distributor relations	\$ 107,400
Technology	9,750
Licensing agreements and anti-piracy covenants	2,384
	<u>119,534</u>
Accumulated amortization	<u>(4,156)</u>
	115,378
Trade names, not subject to amortization	28,300
Balance at September 30, 2006	<u>\$ 143,678</u>

Amortization expense was \$2.9 million and \$4.2 million during the three and nine month periods ended September 30, 2006.

## Note H — Debt

On May 16, 2006, the Company entered into a Financing Agreement, dated as of May 16, 2006 (the “Financing Agreement”), which is a \$225.0 million secured credit facility with Ableco Finance LLC, as collateral and administrative agent. Specifically, the Financing Agreement provides for a \$60.0 million revolving line of credit commitment, a \$50.0 million term loan and a \$115.0 million delayed draw term loan commitment. Outstanding indebtedness under the Financing Agreement will mature on May 16, 2011. The Company intends to use the Financing Agreement to provide for its working capital needs, the working capital needs of its initial businesses and to pursue acquisitions of additional businesses.

Indebtedness under the Financing Agreement bears interest at rates equal to the London Interbank Offer Rate, or LIBOR, plus a spread ranging from 4.25% to 5.50%, depending on the Company’s leverage ratio (as defined in the Financing Agreement) at the time of borrowing. The interest rate will increase by 2.0% above the highest applicable rate during any period when an event of default under the Financing Agreement has occurred and is continuing. In addition, the Company pays commitment fees ranging between 1.0% and 1.5% per annum on the unused portion of the \$60.0 million revolving line of credit and a rate ranging between 1.0% and 2.0% on the unused portion of the \$115.0 million delayed draw term loan, which rate will adjust downwards as such loans are drawn. The Company will pay letter of credit override fees at a rate ranging between 1.0% and 1.5% of the aggregate amount of letters of credit outstanding at any business, which rate will adjust downward based on the amount drawn on the revolving line of credit. Letters of Credit outstanding at September 30, 2006 total approximately \$20.0 million. These fees are reflected as a component of interest expense in the Company’s Statement of Operations.

On May 16, 2006, the Company borrowed the full amount available under the \$50 million term loan in connection with its acquisition of controlling interests in, and making loans to, the four initial businesses. The Company may borrow under the delayed draw term loan at any time, subject to the satisfaction of certain conditions, from May 16, 2006 until May 16, 2009. As of September 30, 2006 the Company had \$10.0 million outstanding under the delayed draw term loan which it borrowed in connection with the Anodyne acquisition.

The Financing Agreement is secured by a first priority lien on all the assets of the Company, including, but not limited to, the capital stock of the initial businesses, loan receivables from the Company's businesses, cash and other assets. The Financing Agreement also requires that the loan agreements between the Company and its businesses be secured by a first priority lien on the assets of the businesses subject to the letters of credit issued by third party lenders on behalf of such initial businesses.

The Company is subject to certain affirmative and restrictive covenants arising under the Financing Agreement, among other customary covenants that require the Company:

- to maintain a minimum level of cash flow and coverage of fixed charges;
- to leverage new businesses it acquires to a minimum specified level at the time of acquisition; and
- to keep the total debt to cash flow at or below a ratio of 3 to 1.

In addition, the Company is only permitted to make acquisitions that satisfy certain specified minimum criteria. A breach of any of these covenants will be an event of default under the Financing Agreement, among other customary events of default. Upon the occurrence of an event of default, the lender will have the right to accelerate the maturity of any indebtedness outstanding under the Financing Agreement; the Company may be prohibited from making any distributions to its shareholders and will be subject to additional restrictions, prohibitions and limitations. As of September 30, 2006 the Company was in compliance with all of the covenants included in the Financing Agreement.

The Company has the ability to voluntarily prepay up to approximately \$50 million of the Financing Agreement without penalty provided that the Company does not elect to terminate the commitments under the Financing Agreement in connection with such prepayment. If any amount in excess of \$50 million is voluntarily prepaid or if the Company elects to terminate the commitments under the Financing Agreement, the Company is required to pay a premium ranging from 4% if the prepayment occurs on or prior to the first anniversary of the closing of the Financing Agreement, which premium decreases to 2% after the first anniversary and on or prior to the second anniversary and 1% after the second anniversary and on or prior to third anniversary thereof. After the third anniversary of the closing of the Financing Agreement, there will be no prepayment penalty.

The Company incurred approximately \$6.4 million in fees and costs for the arranging of the Financing Agreement, which were paid to Ableco Finance LLC, the third party that assisted us in obtaining the financial agreement and for various other costs. These costs were capitalized and are being amortized over the life of the loans.

As of September 30, 2006, the Company had \$50.0 million in term loans outstanding; \$10.0 million in delayed draw term loans outstanding and \$9.5 million in revolving credit commitments outstanding under the Financing Agreement.

On June 6, 2006 Silvue entered into an unsecured working capital credit facility for its operations in Japan with The Chiba Bank Ltd. This credit facility provides Silvue with the ability to borrow up to approximately \$3.5 million (400,000,000 yen) for working capital needs. The facility expires in May 2007. Outstanding obligations under this facility bear interest at the rate of 1.875% per annum. As of September 30, 2006, the Company had approximately \$2.2 million outstanding under this facility.

#### **Note I — Income taxes**

Compass Diversified Trust is classified as a grantor trust for U.S. Federal income tax purposes and is not subject to income taxes. Compass Diversified Holdings LLC is a partnership and is not subject to income taxes.

Each of the Company's majority owned subsidiaries are subject to Federal and state income taxes.

Components of the Company's income tax expense (benefit) are as follows (*in thousands*):

	Three months ended September 30, 2006	Nine-months ended September 30, 2006
<b>Current taxes:</b>		
Federal	\$ 3,478	\$ 4,849
State	360	409
Foreign	466	529
Total current taxes	<u>4,304</u>	<u>\$ 5,787</u>
<b>Deferred taxes:</b>		
Federal	(1,027)	(589)
State	(68)	(35)
Foreign	373	—
Total deferred taxes	<u>(722)</u>	<u>(624)</u>
Total tax expense	<u>\$ 3,582</u>	<u>\$ 5,163</u>

The tax effects of temporary difference that have resulted in the creation of deferred tax assets and deferred tax liabilities at September 30, 2006 are as follows (*in thousands*):

<b>Deferred tax assets:</b>		
Tax credits		\$ 1,946
Accounts receivable and allowances		1,183
Workers' compensation		6,624
NOL Carryforwards		2,362
Loan forgiveness		794
Other		769
Total deferred tax assets		<u>13,678</u>
<b>Less:</b>		
Valuation allowance		<u>(1,946)</u>
Net deferred tax asset		<u>\$ 11,732</u>
<b>Deferred tax liabilities:</b>		
Intangible assets		\$ (46,517)
Property and equipment		(1,576)
Prepaid and other expenses		(427)
Discontinued operations		(436)
Total deferred tax liabilities		<u>\$ (48,956)</u>
Total net deferred tax liability		<u>\$ (37,224)</u>

At September 30, 2006, the Company recognized approximately \$48.9 million in deferred tax liabilities. A significant portion of the balance in deferred tax liabilities reflects temporary differences in the basis of property and equipment and intangible assets related to the Company's purchase accounting adjustments in connection with the acquisition of the initial businesses.

For financial accounting purposes the Company recognized a significant increase in the fair values of the intangible assets and property and equipment. For income tax purposes the existing tax basis of the intangible assets and property and equipment is utilized. In order to reflect the increase in the financial accounting basis over the existing tax basis, a deferred tax liability was recorded. This liability will decrease in future periods as these temporary differences reverse.

A valuation allowance of approximately \$1.9 million has been provided at September 30, 2006. A valuation allowance is provided whenever it is more likely than not that some or all of deferred assets recorded may not be realized. At September 30, 2006 the Company believes that a portion of deferred tax assets recorded will not be realized in the future.

**Note J — Stockholder’s equity**

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

On July 18, 2006 the Trust paid a distribution of \$0.1327 per share to all holders of record on July 11, 2006. This distribution represented a pro-rata distribution for the quarter ended June 30, 2006. On October 19, 2006 the Company paid a distribution of \$0.2625 per share to all holders of record as of October 13, 2006 for the quarter ended September 30, 2006.

**Note K — Related party transactions**

The Company has entered into the following agreements with Compass Group Management LLC:

- Management Services Agreement
- LLC Agreement
- Supplemental Put Agreement

Management Services Agreement — The Company entered into a Management Services Agreement (“Agreement”) with CGM effective May 16, 2006. The Agreement provides for CGM to perform services for the Company in exchange for a management fee paid quarterly and equal to 0.5% of the Company’s adjusted net assets. The Company amended the Agreement on November 8, 2006, to clarify that adjusted net assets are not reduced by non-cash charges associated with the Supplemental Put Agreement, which amendment was unanimously approved by the Compensation Committee and the Board of Directors. The management fee is required to be paid prior to the payment of any distributions to shareholders. For the three and nine month periods ended September 30, 2006 the Company incurred the following management fees to CGM, by entity : *(in thousands)*

	Three months ended September 30, 2006	Nine months ended September 30, 2006
CBS Personnel	\$ 261	\$ 396
Crosman	144	241
ACI	126	189
Silvue	87	131
Anodyne	58	58
Corporate	1,252	1,799
Total	<u>\$ 1,928</u>	<u>\$ 2,814</u>

Approximately \$0.5 million of the management fees incurred were unpaid as of September 30, 2006.

LLC Agreement — As distinguished from its provision of providing management services to the Company, pursuant to the Management Services Agreement, CGM is also an equity holder of the Company's allocation interests. As such, CGM has the right to distributions pursuant to a profit allocation formula upon the occurrence of certain events. CGM paid \$100,000 for the aforementioned allocation interests and has the right to cause the Company to purchase the allocation interests it owns. (see Supplemental Put Agreement below).

Supplemental Put Agreement — As distinct from its role as Manager of the Company, CGM is also the owner of 100% of the allocation interests in the Company. Concurrent with the IPO, CGM and the Company entered into a Supplemental Put Agreement, which may require the Company to acquire these allocation interests upon termination of the Management Services Agreement. Essentially, the put rights granted to CGM require the Company to acquire CGM's allocation interests in the Company at a price based on a percentage of the increase in fair value in the Company's businesses over its basis in those businesses. Each fiscal quarter the Company estimates the fair value of its businesses for the purpose of determining its potential liability associated with the Supplemental Put Agreement. Any change in the potential liability is accrued currently as a non-cash adjustment to earnings. For the three months ended September 30, 2006, the Company recognized approximately \$8.0 million in non-cash expense related to the Supplemental Put Agreement.

#### Anodyne acquisition

On July 31, 2006, the Company acquired from CGI and its wholly-owned, indirect subsidiary, Compass Medical Mattress Partners, LP (the "Seller") approximately 47.3% of the outstanding capital stock, on a fully-diluted basis, of Anodyne, representing approximately 69.8% of the voting power of all Anodyne stock. Pursuant to the same agreement, the Company also acquired from the Seller all of the Original Loans. On the same date, the Company entered into a Note Purchase and Sale Agreement with CGI and the Seller for the purchase from the Seller of a Promissory Note ("Note") issued by a borrower controlled by Anodyne's chief executive officer. The Note is secured by shares of Anodyne stock and guaranteed by Anodyne's chief executive officer. The Note accrues interest at the rate of 13% per annum and is added to the Note's principal balance. The balance of the Note plus accrued interest totaled approximately \$5.4 million at September 30, 2006. The Note matures in August, 2008.

CGM acted as an advisor to the Company in the Anodyne transaction for which it received transaction services fees and expense payments totaling approximately \$300,000.

#### **Note L — Commitments and contingencies**

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

#### **Note M — Subsequent events**

On October 5, 2006 Anodyne acquired Anatomic Concepts, Inc. ("Anatomic"). The cash purchase price was approximately \$9.2 million. The Company borrowed \$4.0 million under its revolving credit facility and \$5.0 million in delayed draw term loans to finance this acquisition. The acquisition will be accounted for under the purchase method of accounting. Anatomic designs, manufactures and distributes medical support surfaces and medical patient positioning devices, including mattresses, mattress overlays and replacements, operating room patient positioning devices, operating table pads and related accessories. Anatomic is located in Corona, California.

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

*This item 2 contains forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of risks and uncertainties, some of which are beyond our control. Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ, including those discussed in the sections entitled “Forward-Looking Statements” and “Risk Factors” included elsewhere in this Quarterly Report as well as those risk factors discussed in the section entitled “Risk Factors” in our Registration Statement on Form S-1 (File No. 130326).*

### Overview

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

The Trust and the Company were formed to acquire and manage a group of small and middle-market businesses headquartered in the United States. In accordance with the amended and restated trust agreement, dated as of April 25, 2006 (the “Trust Agreement”), the Trust is sole owner of 100% of the Trust Interests (as defined in the LLC Agreement) of the Company and, pursuant to the LLC Agreement, the Company has outstanding, the identical number of Trust Interests as the number of outstanding shares of the Trust. The Company is the operating entity with a board of directors and other corporate governance responsibilities, similar to that of a Delaware corporation.

### Initial public offering and acquisition of initial businesses

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”). Total net proceeds from the IPO, after deducting the underwriters’ discounts, commissions and financial advisory fee, were approximately \$188.3 million. On May 16, 2006, we also completed the private placement of 5,733,333 shares to CGI for approximately \$86.0 million and completed the private placement of 266,667 shares to Pharos I LLC, an entity controlled by Mr. Massoud, the Chief Executive Officer of the Company, and owned by our management team, for approximately \$4.0 million. CGI also purchased 666,667 shares for \$10.0 million through the IPO.

On May 16, 2006, we also entered into a Financing Agreement, (the “Financing Agreement”), which is a \$225.0 million secured credit facility with Ableco Finance LLC, as collateral and administrative agent. Specifically, the Financing Agreement provides for a \$60.0 million revolving line of credit commitment, a \$50.0 million term loan and a \$115.0 million delayed draw term loan commitment. Outstanding indebtedness under the Financing Agreement will mature on May 16, 2011.

We used the net proceeds of the IPO, the separate private placements that closed in conjunction with the IPO, and initial borrowings under our Financing Agreement to make loans to and acquire controlling interest in each of the following businesses (the “initial businesses”), which controlling interests were acquired from certain subsidiaries of CGI and from certain minority owners of each initial business. We paid an aggregate of approximately \$139.3 million for the purchase of the controlling interests in the following initial businesses:

- a controlling interest in CBS Personnel was purchased for approximately \$54.6 million, representing at the time of purchase approximately 97.6% of the outstanding stock of CBS Personnel on a primary basis and approximately 94.4% on a fully diluted basis, after giving effect to the exercise of vested and in the money options and vested non-contingent warrants;



- a controlling interest in Crosman was purchased for approximately \$26.1 million representing approximately 75.4% of the outstanding stock of Crosman on a primary basis and 73.8% on a fully diluted basis;
- a controlling interest in Advanced Circuits was purchased for approximately \$35.4 million, representing approximately 70.2% of the outstanding stock of Advanced Circuits on a primary and fully diluted basis; and
- a controlling interest in Silvue was purchased for approximately \$23.2 million, representing approximately 73.0% of the outstanding stock of Silvue on a primary and fully diluted basis.

At the close of the acquisitions of the initial businesses, the Company's board of directors engaged the Manager to externally manage the day-to-day operations and affairs of the Company, oversee the management and operations of the initial businesses and to perform those services customarily performed by executive officers of a public company.

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

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

### **Recent events**

On August 1, 2006, we acquired approximately 47.3% of the outstanding capital stock, on a fully-diluted basis, of Anodyne Medical Device, Inc. ("Anodyne"), which represents approximately 69.8% of the voting power of all Anodyne stock from CGI and Compass Medical Mattresses Partners, LP (the "Seller"), a wholly- owned, indirect subsidiary of CGI.

The purchase price aggregated \$31.1 million for the Anodyne stock, the Original Loans and the Promissory Note, which purchase price was paid by the Company in the form of \$17.3 million in cash and 950,000 shares of newly issued shares in the Trust. The shares were valued at \$13.1 million or \$13.77 per share, the average closing price of the shares on the NASDAQ Global Market for the ten trading days ending on July 27, 2006. Transaction expenses were approximately \$700,000. The cash consideration was funded through available cash and a drawing on our existing credit facility of approximately \$18.0 million.

On October 5, 2006 Anodyne acquired Anatomic Concepts, Inc. ("Anatomic"). The cash purchase price was approximately \$9.2 million. Anatomic designs, manufactures and distributes medical support surfaces and medical patient positioning devices, including mattresses, mattress overlays and replacements, operating room patient positioning devices, operating table pads and related accessories. Anatomic is located in Corona, California.

## Results of Operations

We acquired our initial businesses on May 16, 2006, and, therefore cannot provide a comparison of our consolidated results of operations for the three and nine-month periods ended September 30, 2006 with any prior period. In the following results of operations, we provide (i) our consolidated results of operations for the three and nine month periods ended September 30, 2006, which includes the results of operations of our initial businesses (segments) as of May 16, 2006 and the results of operations of Anodyne from August 1, 2006, and (ii) comparative, historical, unconsolidated results of operations for each of the initial businesses, on a stand-alone basis, for the three and nine-month periods ended September 30, 2006 and 2005. Anodyne was formed in 2005, began business operations in February 2006 and was acquired by us on August 1, 2006. As a result, comparative results of operations are not available and results of operations from the date of acquisition, although included in our consolidated results, are not meaningful.

### Consolidated Results of Operations — Compass Diversified Trust and Compass Group Diversified Holdings LLC

	Three-months ended September 30, 2006	Nine-months ended September 30, 2006
Net sales	\$ 183,837	\$ 278,520
Cost of sales	138,875	209,752
Gross profit	44,962	68,768
Selling, general and administrative expense	29,031	44,351
Fees to manager	1,928	2,814
Supplemental put cost	8,016	8,016
Amortization of intangibles	2,865	4,156
Research and development expense	279	1,552
Operating income	\$ 2,843	\$ 7,879

#### Net sales

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

#### Expenses

The Trust's and the Company's operating expenses primarily consist of the salary and related costs and expenses of the Company's Chief Financial Officer and his staff, the cost of professional services and other expenses including the directors and audit fees, directors and officers' insurance premiums and tax preparation services.

Pursuant to the Management Services Agreement, we pay CGM a quarterly management fee equal to 0.5% (2.0% annualized) of our adjusted net assets, which is defined in the Management Services Agreement (see Related Party Transactions). The Company accrues for the management fee on a quarterly basis. For the three and nine month periods ended September 30, 2006 we incurred approximately \$1.9 million and \$2.8 million, respectively, in expense for these fees.

In addition, concurrent with the Initial Public Offering, we entered into a Supplemental Put Agreement with our Manager pursuant to which our Manager shall have the right to cause the Company to purchase the allocation interests then owned by them upon termination of the Management Services Agreement. The Company accrued approximately \$8.0 million in expense during the quarter ended September 30, 2006 in connection with this agreement. This non-cash expense primarily represents that portion of the estimated increase in the value of our businesses over our basis in those businesses that our Manager would be entitled to if the Management Services Agreement were terminated, (see — Related Party Transactions).

## Results of Operations for the Acquired initial businesses

We acquired our initial businesses on May 16, 2006. As a result, our consolidated operating results only include the results of operations for the 138 day period between May 16, 2006 and September 30, 2006. The following reflects a comparison of the historical results of operations for each of our initial businesses for the entire three and nine-month periods ended September 30, 2006, which we believe is a more meaningful comparison in explaining the historical financial performance of the businesses. These results of operations are not necessarily indicative of the results to be expected for the full year.

### CBS Personnel

#### Overview

CBS Personnel, a provider of temporary staffing services in the United States, provides a wide range of human resources services, including temporary staffing services, employee leasing services, and permanent staffing and temporary-to-permanent placement services. CBS Personnel serves over 3,500 corporate and small business clients and during an average week places over 21,000 temporary employees in a broad range of industries, including manufacturing, transportation, retail, distribution, warehousing, automotive supply, construction, industrial, healthcare and financial sectors.

#### Results of Operations

The table below summarizes the income from operations data for CBS Personnel for the three and nine-month periods ended September 30, 2006 and 2005.

(in thousands)	Three-months ended		Nine-months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Revenues	\$ 136,993	\$ 138,902	\$ 406,542	\$ 405,486
Cost of revenues	111,643	112,323	331,743	329,505
Gross profit	25,350	26,579	74,799	75,981
Selling, general and administrative expense	19,201	20,434	59,387	62,626
Fees to manager	262	272	764	764
Amortization of intangibles	270	476	811	1,433
Income from operations	\$ 5,617	\$ 5,397	\$ 13,837	\$ 11,158

#### Three-months ended September 30, 2006 vs. September 30, 2005

#### Revenues

Revenues for the three months ended September 30, 2006 decreased approximately \$1.9 million over the corresponding three months ended September 30, 2005. Revenues from light industrial staffing increased \$7.0 million. This increase was offset by a \$6.8 million decrease in clerical staffing and a \$1.7 million decrease in revenues attributable to payroll, technical and medical services. The remaining decrease in revenues is attributable to the remaining niche segments provided by CBS Personnel. These decreases in revenues include a \$2.2 million decrease in revenues attributable to one specific customer that CBS Personnel stopped providing services for in the fourth quarter of 2005, due to the customer's credit issues.

#### Cost of revenues

Direct cost of revenues for the three months ended September 30, 2006 decreased approximately \$0.7 million. Gross profit totaled approximately 18.5% and 19.1% of revenues for the three month periods ended September 30, 2006 and 2005, respectively. The decrease in cost of revenues is primarily attributable to the decrease in revenues for the same period. The decrease in gross profit as a percent of revenues is attributable to a shift in product mix to larger accounts and light industrial accounts.

### Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended September 30, 2006, decreased approximately \$1.2 million. This decrease is largely the result of a decrease in bad debt expense of \$0.9 million and a decrease in non-recurring restructuring costs of \$0.2 million. Bad debt expense was lower in 2006 as a result of increased efforts by management in the collection process and the resulting improvement in day's sales receivable outstanding.

### Amortization expense

Amortization expense decreased approximately \$0.2 million in the three months ended September 30, 2006 as a result of CBS Personnel's recapitalization in connection with our purchase of a controlling interest in CBS Personnel. As part of our recapitalization, CBS Personnel repaid their original long term debt which required the write off the balance of deferred costs which resulted in lower overall amortization costs associated with that original debt.

### Income from operations

Income from operations increased approximately \$0.2 million to \$5.6 million for the three months ended September 30, 2006 compared to the three months ended September 30, 2005 based on the factors described above.

## Nine-months ended September 30, 2006 vs. September 30, 2005

### Revenues

Revenues for the nine months ended September 30, 2006 increased approximately \$1.1 million over the corresponding nine months ended September 30, 2005. Revenues from light industrial staffing increased \$13.1 million and revenues from technical staffing increased \$1.4 million. These increases were offset in part by a \$7.8 million decrease in revenues from clerical services, and a \$4.5 million decrease in revenues from medical and payroll services. The remaining decrease in revenues is attributable to the remaining niche segments provided by CBS Personnel. These decreases in revenues include approximately \$7.1 million attributable to one specific customer that CBS Personnel stopped providing services for in the fourth quarter of 2005, due to the customer's credit issues.

### Cost of revenues

Direct cost of revenues for the nine months ended September 30, 2006 increased approximately \$2.2 million principally due to those costs associated with the increase in revenues and increases in unemployment taxes totaling approximately \$0.9 million. Gross profit totaled approximately 18.4% and 18.7% as a percentage of revenues in each of the nine month periods ended September 30, 2006 and 2005, respectively. The decrease in gross profit as a percent of revenues is primarily attributable to a shift in the service mix, in that a greater percentage of revenues are the result of providing service to larger clients and light industrial accounts.

### Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended September 30, 2006, decreased approximately \$3.2 million. This decrease is principally the result of a decrease in bad debt expense of \$2.2 million and a decrease in non-recurring restructuring costs of \$0.5 million. Bad debt expense was lower in 2006 as a result of increased efforts by management in the collection process and the resulting improvement in day's sales receivable outstanding.

### Amortization expense

Amortization expense decreased approximately \$0.6 million in the nine months ended September 30, 2006 as a result of CBS Personnel's recapitalization in connection with our purchase of a controlling interest in CBS Personnel. As part of our recapitalization, CBS Personnel repaid their original long term debt which required CBS to write off the balance of deferred costs, which, in turn, resulted in lower overall amortization costs associated with that original debt.

### Income from operations

Income from operations increased approximately \$2.6 million to \$13.8 million in the nine months ended September 30, 2006 compared to \$11.2 million for nine months ended September 30, 2005 principally as a result of the factors described above.

## Crosman

### Overview

Crosman is a manufacturer and distributor of recreational airgun products, “soft-air” products, and related accessories. Crosman’s products are sold through approximately 500 retailers in over 6,000 retail locations in the United States and 44 other countries. The United States market, however, continues to be Crosman’s primary market, accounting for approximately 87% of net sales for the nine month period ended September 30, 2006.

### Results of Operations

The table below summarizes the income from operations data for Crosman for the three and nine-month period ended September 30, 2006.

(in thousands)	Three-months ended		Nine-months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net sales	\$ 24,765	\$ 20,468	\$ 73,548	\$ 52,294
Cost of sales	17,972	15,490	51,388	39,893
Gross profit	6,793	4,978	22,160	12,401
Selling, general and administrative expense	2,737	2,298	8,989	7,141
Fees to manager	145	145	451	435
Amortization of intangibles	89	179	415	498
Income from operations	<u>\$ 3,822</u>	<u>\$ 2,356</u>	<u>\$ 12,305</u>	<u>\$ 4,327</u>

#### Three-months ended September 30, 2006 vs. September 30, 2005

#### Net sales

Net sales for the three months ended September 30, 2006 increased approximately \$4.3 million over the corresponding three month period ended September 30, 2005. Revenues attributable to sales of its “soft air” products increased \$1.5 million and revenues attributable its air rifles increased approximately \$2.6 million. The increase in sales of its soft air products was the result of the overall growth in the soft air market and the ability of Crosman to leverage its position in this growing market. The increased sales of its air rifles products was due to (i) new product introductions that drove sales growth and (ii) more adequate inventory levels available to its customers during specific peak selling periods during the quarter.

#### Cost of sales

Cost of sales for the three months ended September 30, 2006 increased approximately \$2.4 million. This increase was due almost entirely to the corresponding increase in sales, offset in part by overall increased gross profit margins (27.5% at September 30, 2006 vs. 24.3% at September 30, 2005) resulting from reduced returns and positive product mix changes.

#### Selling, general and administrative expenses

Selling, general and administrative expenses increased approximately \$0.4 million during the three months ended September 30, 2006 compared to the corresponding period in 2005. This increase is due primarily to additional insurance, commissions and other associated costs related to the increase in sales.

#### Operating income

Operating income for the three months ended September 30, 2006 was approximately \$3.8 million compared to approximately \$2.4 million for the three months ended September 30, 2005, an increase of approximately \$1.4 million. This increase was primarily due to increased revenues and other factors as described above.

Nine-months ended September 30, 2006 vs. September 30, 2005

Net sales

Revenues for the nine months ended September 30, 2006 increased approximately \$21.3 million over the corresponding nine month period ended September 30, 2005. Revenues attributable to sales of its "soft air" products increased \$12.5 million and revenues attributable its air rifles increased approximately \$7.5 million. The increased sales of its soft air products was the result of the overall growth in the soft air market and the ability of Crosman to leverage its position in this growing market. The increased sales of its air rifles was due to (i) new product introductions that drove sales growth and (ii) more adequate inventory levels available to its customers during specific peak selling periods during the period.

Cost of sales

Cost of sales for the nine months ended September 30, 2006 increased approximately \$11.5 million. This increase is due almost entirely to the corresponding increase in sales offset in part by overall increased gross profit margins (30.1% at September 30, 2006 vs. 23.7% at September 30, 2005) resulting from Crosman's ability to reduce certain product discounting during the period and its operating leverage.

Selling, general and administrative expenses

Selling, general and administrative expenses increased approximately \$1.8 million during the nine months ended September 30, 2006 compared to the corresponding period in 2005. This increase is due to additional performance bonus expense of approximately \$1.9 million recorded in the nine months ended September 30, 2006 and additional selling and marketing costs totaling \$0.5 million related to the significant increase in sales, offset in part by a \$0.6 million decrease in legal costs in 2006.

Operating income

Operating income for the nine months ended September 30 2006 was approximately \$12.3 million compared to approximately \$4.3 million for the nine months ended September 30, 2005, an increase of approximately \$8.0 million. This increase was primarily due to increased revenues and other factors as described above.

**Advanced Circuits**

**Overview**

Advanced Circuits is a provider of prototype, quick-turn and volume production printed circuit boards, or PCBs, to customers throughout the United States. Collectively, prototype and quick-turn PCBs represent over 60% of Advanced Circuits' gross revenues. Advanced Circuits manufactures custom PCBs in as little as 24 hours, while maintaining an approximately 98% error-free production rate and real-time customer service and product tracking 24 hours per day.

Advanced Circuits does not depend or expect to depend upon any customer or group of customers, with no single customer accounting for more than 2% of its net sales in the three or nine-months ended September 30, 2006.

In September 2005, a subsidiary of CGI acquired Advanced Circuits, Inc. along with R.J.C.S. LLC, an entity previously established solely to hold Advanced Circuits' real estate and equipment assets. Immediately following the acquisitions, R.J.C.S. LLC was merged into Advanced Circuits, Inc. The results for the three and nine-months ended September 30, 2006 and September 30, 2005 reflect the combined results of the two businesses. The following section discusses the historical financial performance of the combined entities.

## Results of Operations

The table below summarizes the income from operations data for Advanced Circuits for the three and nine-month periods ended September 30, 2006 and September 30, 2005.

(in thousands)	Three-months ended		Nine-months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net sales	\$ 12,513	\$ 10,672	\$ 36,514	\$ 31,454
Cost of sales	5,137	4,234	14,844	13,484
Gross profit	7,376	6,438	21,670	17,970
Selling, general and administrative expense	2,832	2,271	8,467	6,246
Fees to manager	126	—	375	—
Amortization of intangibles	664	—	2,066	—
Income from operations	\$ 3,754	\$ 4,167	\$ 10,762	\$ 11,724

### Three-months ended September 30, 2006 vs. September 30, 2005

#### Net sales

Net sales for the three months ended September 30, 2006 increased approximately \$1.8 million over the corresponding three month period ended September 30, 2005. Increased sales from quick-turn production PCB's and Prototype PCB's are principally responsible for this increase.

#### Cost of sales

Cost of sales for the nine months ended September 30, 2006 increased approximately \$0.9 million. This increase principally is due to the corresponding increase in sales offset in part by efficiencies derived from the increased capacity utilization of Advanced Circuits Aurora, Colorado facility. Gross profit as a percentage of sales decreased during the three months ended September 30, 2006 (58.9% at September 30, 2006 vs. 60.3% at September 30, 2005) largely as a result of the increased raw material costs of purchasing laminates.

#### Selling, general and administrative expenses

Selling, general and administrative expenses increased approximately \$0.6 million during the three months ended September 30, 2006 compared to the corresponding period in 2005. This increase is principally due to charges of approximately \$0.5 million related to accrued loan forgiveness. The loan forgiveness expense is related to a bonus plan whereby the loans issued in connection with the purchase of Advanced Circuits' stock by its management may be forgiven upon the achievement of certain financial performance targets.

#### Amortization expense

Amortization expense increased approximately \$0.7 million in the three months ended September 30, 2006 as a result of amortization associated with intangible assets acquired in connection with the September 2005 acquisition.

#### Operating income

Operating income for the three months ended September 30, 2006 was approximately \$3.8 million compared to approximately \$4.2 million for the three months ended September 30, 2005, a decrease of approximately \$0.4 million. This decrease primarily was due to the non-cash loan forgiveness and amortization expense increases in 2006 that were not factors in the third quarter of 2005, offset in part by the growth in Advanced Circuits revenues and corresponding increases in gross profit, as described above.

Nine-months ended September 30, 2006 vs. September 30, 2005

Net sales

Net sales for the nine months ended September 30, 2006 increased approximately \$5.1 million over the corresponding nine month period ended September 30, 2005. Increased sales from quick-turn production PCB's and Prototype PCB's are principally responsible for this increase.

Cost of sales

Cost of sales for the nine months ended September 30, 2006 increased approximately \$1.4 million. This increase principally is due to the corresponding increase in sales offset in part by efficiencies realized from the increased capacity utilization of Advanced Circuits Aurora, Colorado facility. Gross profit as a percentage of sales also increased during the nine months ended September 30, 2006 (59.3% at September 30, 2006 vs. 57.1% at September 30, 2005) as a result of utilizing this increased capacity and the favorable product mix associated with the increase in sales of quick-turn and prototype PCB's.

Selling, general and administrative expenses

Selling, general and administrative expenses increased approximately \$2.2 million during the nine months ended September 30, 2006 compared to the corresponding period in 2005. This increase is principally due to charges of approximately \$2.1 million related to accrued loan forgiveness. The loan forgiveness expense is related to a bonus plan whereby the loans issued in connection with the purchase of Advanced Circuit's stock by its management may be forgiven upon the achievement of certain financial performance targets.

Amortization expense

Amortization expense increased approximately \$2.1 million in the nine months ended September 30, 2006, as a result of intangible assets acquired in connection with the September 2005 change in ownership.

Operating income

Operating income for the nine months ended September 30, 2006 was approximately \$10.8 million compared to approximately \$11.7 million for the three months ended September 30, 2005, a decrease of approximately \$1.1 million. This decrease primarily was the result if the accrued loan forgiveness charges and amortization costs incurred in 2006 which were not factors in 2005 and other factors as described above. We will continue to incur these non-cash charges in the future.

**Silvue**

**Overview**

Silvue is a developer and producer of proprietary, high performance liquid coating systems used in the high-end eyewear, aerospace, automotive and industrial markets. Silvue's coating systems, which impart properties such as abrasion resistance, improved durability, chemical resistance, ultraviolet, or UV protection, can be applied to a wide variety of materials, including plastics, such as polycarbonate and acrylic, glass, metals and other surfaces.

On August 31, 2004, Silvue was formed by CGI and management to acquire SDC Technologies, Inc. and on September 2, 2004, it acquired 100% of the outstanding stock of SDC Technologies, Inc. Following this acquisition, on April 1, 2005, SDC Technologies, Inc. purchased the remaining 50% it did not previously own of Nippon Arc Co. LTD ("Nippon ARC"), which was formerly operated as a joint venture with Nippon Sheet Glass Co., LTD., for approximately \$3.6 million.



## Results of Operations

The table below summarizes the income from operations data for Silvue for the three and nine-month period ended September 30, 2006 and September 30, 2005.

(in thousands)	Three-months ended		Nine-months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net sales	\$ 5,463	\$ 5,372	\$ 15,717	\$ 12,762
Cost of sales	1,206	1,472	3,792	2,979
Gross profit	4,257	3,900	11,925	9,783
Selling, general and administrative expense	2,002	2,215	6,268	5,438
Research and development	279	178	875	666
Fees to manager	87	87	263	263
Amortization of intangibles	190	128	550	379
Income from operations	\$ 1,699	\$ 1,292	\$ 3,969	\$ 3,037

### Three-months ended September 30, 2006 vs. September 30, 2005

#### Net sales

Revenues for the three months ended September 30, 2006 increased approximately \$0.1 million over the corresponding three months ended September 30, 2005. This increase principally was due to increased coating sales to existing customers.

#### Cost of sales

Cost of sales for the three months ended September 30, 2006 decreased approximately \$0.3 million. Gross profit was approximately 77.9% and 72.6% of revenue in each of the three month periods ended September 30, 2006 and 2005, respectively. This increase in gross profit percentage principally was due to sales of higher margin products, specifically in Asia.

#### Selling, general and administrative expense

Selling, general and administrative expenses decreased approximately \$0.2 million during the three months ended September 30, 2006 compared to the corresponding period in 2005. This decrease primarily was due to a reduction in personnel costs.

#### Research and development costs

Research and development costs totaled approximately \$0.3 million and 0.2 million in the three month periods ended September 30, 2006 and 2005, respectively.

#### Amortization expense

Amortization expense increased approximately \$0.1 million in the three months ended September 30, 2006 as compared to the prior three month period in 2005 principally due to the increase in amortizable intangible assets resulting from the Nippon ARC acquisition.

#### Operating income

Operating income for the three months ended September 30, 2006 was approximately \$1.7 million compared to approximately \$1.3 million for the three months ended September 30, 2005, an increase of approximately \$0.4 million. This increase was due primarily to increased revenues and other factors as described above.

Nine-months ended September 30, 2006 vs. September 30, 2005

Net sales

Revenues for the nine months ended September 30, 2006 increased approximately \$2.9 million over the corresponding nine months ended September 30, 2005. This increase principally is due to approximately \$1.8 million in sales associated with Nippon ARC which Silvue acquired on April 1, 2005. In addition, increase in sales of approximately \$1.0 millions in its core ophthalmic business and aluminum coatings products also contributed to the increase in sales during the nine months ended September 30, 2006.

Cost of sales

Cost of sales for the nine months ended September 30, 2006 increased approximately \$0.8 million. This increase is almost entirely the result of direct costs associated with the increase in net sales primarily related to Nippon ARC. Gross profit as a percentage of sales was approximately 75.9% and 76.7 % in each of the nine month periods ended September 30, 2006 and 2005, respectively. This decrease in gross profit percentage is due to a greater percentage of overall sales being derived from Asia where margins are typically lower than those in the United States or Europe. We expect that gross profit as a percent of revenues will approximate the 2006 rate, going forward.

Selling, general and administrative expense

Selling, general and administrative expenses increased approximately \$0.8 million during the nine months ended September 30, 2006 compared to the corresponding period in 2005. This increase primarily was due to increased costs of approximately \$0.3 million related to the inclusion of Nippon ARC for the full nine months in 2006 and increased accounting and professional fees of approximately \$0.5 million associated with our purchase of Silvue.

Research and development costs

Research and development costs increased approximately \$0.2 million in the nine months ended September 30, 2006 compared to the same period in 2005. This increase is primarily the result of increased costs associated with the inclusion of Nippon ARC for a full nine month period in 2006.

Amortization expense

Amortization expense increased approximately \$0.2 million in the nine months ended September 30, 2006. This increase is primarily the result of increased costs associated with the inclusion of Nippon ARC for a full nine month period in 2006.

Operating income

Operating income for the nine months ended September 30, 2006 was approximately \$4.0 million compared to approximately \$3.0 million for the nine months ended September 30, 2005, an increase of approximately \$1.0 million. This increase was primarily due to increased revenues, the inclusion of Nippon ARC for a full nine month period in 2006 and other factors as described above.

## Liquidity and Capital Resources

On May 16, 2006 we completed an initial public offering and concurrent private placement of shares of trust stock, each representing a beneficial interest in the Company. The net proceeds from these offerings after underwriter's commissions, discounts and public offering costs totaled approximately \$269.9 million. In conjunction with this offering, we entered into a third party credit facility for an aggregate borrowing amount of \$225 million as follows: (i) \$60 million revolving line of credit commitment; (ii) \$50 million term loan; and (iii) \$115 million delayed term loan ("Financing Agreement").

We used the net proceeds from our initial public offering and private placement together with the \$50 million term loan to acquire controlling interests in, and to provide loans to, our initial businesses on May 16, 2006. As a consequence, our consolidated cash flows from operating, financing and investing activities reflect the inclusion of our initial businesses for the 138 day period between May 16, 2006 and September 30, 2006. Any comparison of our consolidated cash flows for this short period in 2006 to any prior period is not meaningful.

At September 30, 2006, on a consolidated basis, cash flows provided by operating activities totaled approximately \$10.3 million, which represents the inclusion of the results of operations of the initial businesses for 138 days (May 16, 2006 through September 30, 2006). On July 31, 2006 we acquired a controlling interest in Anodyne. As a result, consolidated cash flows include Anodyne's results for two months (August 1, 2006 through September 30, 2006).

Cash flows used in investing activities totaled approximately \$345.8 million, which reflects the costs to acquire the initial businesses and Anodyne. Cash flow provided by financing activities totaled \$348.4 million, reflecting the net proceeds of the shareholder offerings and draw-downs of debt from our Finance Agreement.

At September 30, 2006 we had approximately \$13.0 million of cash on hand and the following outstanding loans due from each of our initial businesses:

- CBS Personnel — approximately \$64.2 million;
- Crosman — approximately \$49.5 million;
- Advanced Circuits — approximately \$40.4 million;
- Silvue — approximately \$19.2 million; and
- Anodyne — approximately \$11.7 million.

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.

In September 2006, our subsidiary Silvue borrowed approximately \$9.0 million in term loans from us in order to redeem its outstanding cumulative preferred stock.

In October 2006, Anodyne borrowed an additional \$9.2 million in term loans in order to finance its Anatomic acquisition.

A non-cash charge to earnings of approximately \$8.0 million was recorded during the quarter ended September 30, 2006 in order to recognize our estimated, potential liability in connection with the Supplemental Put Agreement between us and our Manager, (see Related Party Transactions).

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 of and cash flow of these businesses, which are available for (i) operating expenses; (ii) payment of principal and interest under our Financing Agreement; (iii) payments to our Manager due or potentially due pursuant to the Management Services Agreement, the LLC Agreement, and the Supplemental Put Agreement; (iv) cash distributions to our shareholders and (v) investments in future acquisitions. Payments made under (iii) above are required to be paid before distributions to shareholders and may be significant and exceed the funds held by the Company, which may require the Company to dispose of assets or incur debt to fund such expenditures. We believe that we currently have sufficient liquidity and resources to meet our existing obligations including anticipated distributions to our shareholders over the next twelve months.

We intend to use the Financing Agreement to pursue acquisitions of additional businesses to the extent permitted under our Financing Agreement and to provide for working capital needs. All obligations under the Financing Agreement will mature on May 16, 2011. As of September 30, 2006, the Company had \$50.0 million in term loans outstanding; \$10.0 million in delayed draw term loans outstanding and \$9.5 million in revolving credit commitments outstanding under the Financing Agreement. On October 5, 2006 we borrowed an additional \$9.0 million under our Financing Agreement in order to fund Anodyne's acquisition of Anatomic (see Recent Events).

The Financing Agreement is secured by a first priority lien on all the assets of the Company, including, but not limited to, the capital stock of our businesses, loan receivables from these businesses, cash and other assets. The Financing Agreement also requires that the loan agreements between the Company and our businesses be secured by a first priority lien on the assets of our businesses.

The Financing Agreement includes certain affirmative and restrictive covenants, including, among other customary covenants that require us:

- to maintain a minimum level of cash flow;
- to leverage new businesses we acquire to a minimum specified level at the time of acquisition;
- to keep our total debt to cash flow at or below a ratio of 3 to 1; and
- to maintain a minimum rate of cash flow to our fixed charges.

In addition, we are only permitted to make acquisitions that satisfy certain specified minimum criteria imposed by our lender.

We are in compliance with the covenants contained in the Financing Agreement. We do not believe these financial covenants, including the limitation on the total debt the Company may have, will materially limit our ability to undertake future financing.

We incurred approximately \$6.4 million in fees and costs for the arranging of the Financing Agreement, which were paid to the lenders and a third party that assisted us in obtaining the Financing Agreement and for various other costs. This amount is being amortized over the life of the loan.

We intend to pursue a policy of making regular distributions on our outstanding shares. Our policy is dependent upon the liquidity and capital resources available in our businesses, taking into consideration their long and short-term capital needs.

On July 18, 2006 we paid a distribution of \$0.1327 per share to all holders of record on July 11, 2006 and on October 19, 2006 we paid a distribution \$0.2625 per share to holders of record on October 13, 2006. Respectively, these distributions represent (i) a pro-rata distribution for the quarter ended June 30, 2006 and (ii) a full distribution for the quarter ended September 30, 2006. We intend to continue to declare and pay regular quarterly cash distributions.

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

<i>(in thousands)</i>	<b>Three months ended September 30, 2006</b>	<b>Nine months ended September 30, 2006</b>
Net loss	\$ (3,884)	\$ (1,772)
Adjustment to reconcile net loss to cash provided by operating activities		
Depreciation and amortization	4,134	6,161
Supplemental put expense	8,016	8,016
Silvue's in-process R&D expensed at acquisition date	—	1,120
Advanced Circuit's loan forgiveness accrual	536	1,072
Minority interest	1,187	1,896
Deferred taxes	(652)	(624)
Other	(205)	(311)
Changes in operating assets and liabilities	(7,444)	(5,261)
Net cash provided by operating activities	1,688	10,297
Plus:		
Unused fee on delayed term loan (1)	554	842
Changes in operating assets and liabilities	7,444	5,261
Less:		
Maintenance capital expenditures (2)		
Compass Group Diversified Holdings LLC	51	70
CBS Personnel	255	291
Crosman	892	1,477
Advanced Circuits	253	323
Silvue	196	199
Anodyne	157	157
Estimated cash flow available for distribution	<u>\$ 7,882</u>	<u>\$ 13,883</u>
Distribution paid July 2006	\$ —	\$ (2,547)
Distribution declared September 2006	(5,368)	(5,368)
Total distributions	<u>\$ (5,368)</u>	<u>\$ (7,915)</u>

(1) Represents the 2% commitment fee on the unused portion of the delayed term loan.

(2) Represents maintenance capital expenditures that were funded from operating cash flow and excludes approximately \$1.5 million of growth capital expenditures for the nine months ended September 30, 2006.

Cash flows of certain of our businesses are seasonal in nature. Cash flows from CBS Personnel are typically lower in the March 31 quarter of each year than in other quarters due to reduced seasonal demand for temporary staffing services and to lower gross margins during that period associated with the front-end loading of certain taxes and other payments associated with payroll paid to our employees. In addition, Crosman's business is seasonal in nature, with cash flow typically peaking in the December 31 quarter of each year as a result of holiday related sales.

### ***Related Party Transactions***

We have entered into the following agreements with our Manager, CGM. Any fees associated with the agreements described below must be paid, if applicable, prior to the payment of any distributions to shareholders.

- Management Services Agreement
- LLC Agreement
- Supplemental Put Agreement

***Management Services Agreement*** — We entered into a Management Services Agreement (“Agreement”) with our Manager effective May 16, 2006. The Agreement provides for our Manager to perform services for us in exchange for a management fee paid quarterly and equal to 0.5% of our adjusted net assets. We amended the Agreement on November 8, 2006, to clarify that adjusted net assets are not reduced by non-cash charges associated with the Supplemental Put, which amendment was unanimously approved by the Compensation Committee and the Board of Directors. The management fee is required to be paid prior to the payment of any distributions to shareholders. For the three and nine months ended September 30, 2006 we paid approximately \$1.9 million and \$2.8 million, respectively, to our Manager for its quarterly management fee.

***LLC Agreement*** — As distinguished from its provision of providing management services to us, pursuant to the Management Services Agreement, our Manager is also an equity holder of our allocation interests. As such, our Manager has the right to a distribution pursuant to a profit allocation formula upon the occurrence of certain events. Our Manager paid \$100,000 for the aforementioned allocation interests and has the right to cause the Company to purchase the allocation interests it owns under certain circumstances, (see Supplemental Put Agreement below).

***Supplemental Put Agreement*** — As distinct from its role as our Manager, CGM is also the owner of 100% of the allocation interests in the Company. Concurrent with the IPO, CGM and the Company entered into a Supplemental Put Agreement, which may require the Company to acquire these allocation interests upon termination of the Management Services Agreement. Essentially, the put rights granted to CGM require us to acquire CGM’s allocation interests in the Company at a price based on a percentage of the increase in fair value in the Company’s businesses over its basis in those businesses. Each fiscal quarter we estimates the fair value of our businesses for the purpose of determining our potential liability associated with the Supplemental Put Agreement. Any change in the potential liability is accrued currently as a non-cash adjustment to earnings. For the three months ended September 30, 2006, we recognized approximately \$8.0 million in non-cash expense related to the Supplemental Put Agreement.

### ***Anodyne acquisition***

On July 31, 2006, we acquired from CGI and its wholly-owned, indirect subsidiary, Compass Medical Mattress Partners, LP (the “Seller”) approximately 47.3% of the outstanding capital stock, on a fully-diluted basis, of Anodyne, representing approximately 69.8% of the voting power of all Anodyne stock. Pursuant to the same agreement, we also acquired from the Seller all of the Original Loans. On the same date, we entered into a Note Purchase and Sale Agreement with CGI and the Seller for the purchase from the Seller of a Promissory Note issued by a borrower controlled by Anodyne’s chief executive officer. The promissory Note accrues interest at the rate of 13% per annum and is added to the Notes principal balance. The balance of the Note plus accrued interest totaled approximately \$5.4 million at September 30, 2006. The Note matures in August, 2008. The balance of the Promissory Note and accrued interest totals approximately \$5.4 million at September 30, 2006.

Our Manager, CGM acted as an advisor to us in the transaction for which it received transaction services fees and expense payments totaling approximately \$300,000.

### Contractual Obligations and Off-Balance Sheet Arrangements

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

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

The table below summarizes the payment schedule of our contractual obligations at September 30, 2006.

<i>(in thousands)</i>	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 years</u>
Long-Term Debt Obligations (a)	\$ 87,176	\$ 5,876	\$ 11,752	\$ 69,548	\$ —
Capital Lease Obligations	417	132	205	66	14
Operating Lease Obligations (b)	25,167	6,003	9,241	4,254	5,669
Purchase Obligations (c)	50,168	17,210	17,963	14,995	—
Supplemental Put Obligation (d)	<u>\$ 162,928</u>	<u>\$ 29,221</u>	<u>\$ 39,161</u>	<u>\$ 88,863</u>	<u>\$ 5,683</u>

(a) Reflects long-term debt of \$60 million and related interest obligations

(b) Reflects various operating leases for office space, manufacturing facilities and equipment from third parties with various lease terms running from one to fourteen years.

(c) Reflects non-cancelable commitments as of September 30, 2006, including: (i) committed shareholder distributions of \$7.8 million, (ii) management fees of \$7.4 million per year over the next five years and; (iii) other obligations, including amounts due under employment agreements.

(d) The supplemental put obligation is an estimated liability accrued as if our management services agreement with CGM had been terminated. This agreement has not been terminated and there is no basis upon which to determine a date in the future, if any, that this amount will be paid.

The table does not include the long-term portion of the actuarially developed reserve for workers compensation, which does not provide for annual estimated payments beyond one year. This liability, totaling approximately \$14.4 million at September 30, 2006, is included in our balance sheet as a component of other non-current liabilities.

### Critical Accounting Estimates

A summary of critical accounting policies and estimates may be found in our Registration Statement on Form S-1, (File No.333-130326) as filed with the SEC.

### Recent Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board issued Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, which is effective January 1, 2007. The purpose of FIN 48 is to clarify and set forth consistent rules for accounting for uncertain tax positions in accordance with FAS 109, *Accounting for Income Taxes*. The cumulative effect of applying the provisions of this interpretation is required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. We are in the process of reviewing and evaluating FIN 48, and therefore the ultimate impact of its adoption is not yet known.

In September 2006, the U.S. Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108 (“SAB 108”), *“Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.”* SAB 108 eliminates the diversity of practice surrounding how public companies quantify financial statement misstatements.

It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. We do not expect SAB 108 to have a material impact on our financial condition or results of operations. SAB 108 must be applied to annual financial statements for their first fiscal year ending after December 15, 2006.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*". This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. We have not yet determined the impact that the implementation of SFAS No. 157 will have on our results of operations or financial condition. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*". This standard requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. We are currently evaluating the impact that the implementation of SFAS No. 158 will have on our financial statements. The new reporting requirements and related new footnote disclosure rules of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The new measurement date requirement applies for fiscal years ending after November 15, 2008. We have determined that this statement is not applicable to the Company.

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

#### **Interest Rate Sensitivity**

At September 30, 2006, we were exposed to interest rate risk primarily through borrowings under our Financing Agreement because borrowings under this agreement are subject to variable interest rates. In connection with the acquisition of our businesses, we had outstanding \$69.5 million under the Financing Agreement as follows: \$60 million in outstanding term loans as of September 30, 2006 (which was used to partially fund the acquisition of the initial businesses and Anodyne) and \$9.5 million outstanding under the Revolving Credit portion of the facility. In addition we have approximately \$2.2 million in a fixed-rate revolving credit facility outstanding in connection with Silvue's operations in Japan.

We expect to borrow under the revolving credit portion of the Financing Agreement to finance our short-term working capital needs.

#### **Exchange Rate Sensitivity**

At September 30, 2006, we were not exposed to significant foreign currency exchange rate risks that could have a material effect on our financial condition or results of operations.



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

As required by Exchange Act Rule 13a-15(b), the Trust's Regular Trustees and the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, conducted an evaluation of the effectiveness of the Trust's and the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2006. Based on that evaluation, the Regular Trustees of the Trust and the Chief Executive Officer and Chief Financial Officer of the Company concluded that the Trust's and the Company's disclosure controls and procedures were effective as of September 30, 2006.

In connection with the evaluation required by Exchange Act Rule 13a-15(d), the Trust's Regular Trustees and the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, concluded that no changes in the Trust's or the Company's internal control over financial reporting occurred during the third quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the Trust's and the Company's internal control over financial reporting.

**PART II**  
**OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Legal proceedings associated with the Company's and the Trust's business together with legal proceedings for the initial businesses have not changed materially from those disclosed in the Registration Statement on Form S-1, (File No. 333-130326) as filed with the SEC, and incorporated herein by reference.

**ITEM 1A. RISK FACTORS**

Except as set forth below, risk factors and uncertainties associated with the Company's and the Trust's business have not changed materially from those disclosed in the Registration Statement on Form S-1, (File No. 333-130326) as filed with the SEC and incorporated herein by reference, and in our Quarterly Report filed on Form 10-Q on August 10, 2006 for the quarter ended June 30, 2006. Additional risks and uncertainties that are not currently known to us or that we currently believe are immaterial may also materially adversely affect our financial condition, business and operations.

**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.***

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 their 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 to fund acquisitions, satisfy short- and long-term working capital needs of our businesses, or satisfy 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.

## **ITEM 5. OTHER INFORMATION**

### **Allocation of Profits and Losses Associated with the Divestiture of Subsidiaries of the Company or for other Unusual Events**

In general, the Company's profits and losses are determined on an annual basis and allocated among the holders in proportion to the number of months during the year in which they held shares, determined as of the close of the last trading day of the preceding month. Therefore, a holder who held (or was deemed to hold) shares for the first five months of a year would be allocated 5/12ths of the annual income, regardless of amount of income actually earned during the first five months. However, with respect to gains and losses realized on the divestiture of the Company's subsidiaries and for other unusual profits and losses, the Company will allocate such gains and losses to holders who held (or are deemed to hold) shares on the day such unusual gain or loss is realized.

**ITEM 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Certificate of Trust of Compass Diversified Trust*
3.2	Certificate of Formation of Compass Group Diversified Holdings LLC*
3.3	Amended and Restated Trust Agreement of Compass Diversified Trust***
3.4	Amended and Restated Operating Agreement of Compass Group Diversified Holdings LLC***
4.1	Specimen certificate evidencing a share of trust of Compass Diversified Trust (included in Exhibit 3.5)***
4.2	Specimen certificate evidencing an interest of Compass Group Diversified Holdings LLC (included in Exhibit 3.6)***
10.1	Amended and restated Management Services Agreement with CGM dated November 8, 2006
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant

\* Previously filed in connection with Compass Diversified Trust's and Compass Group Diversified Holdings LLC's registration statement on Form S-1 (File No. 333-130326, 333-130326-01) filed on December 14, 2005.

\*\* Previously filed in connection with amendment no. 3 to Compass Diversified Trust's and Compass Group Diversified Holdings LLC's registration statement on Form S-1 (File No. 333-130326, 333-130326-01) filed on April 13, 2006.

\*\*\* Previously filed in connection with amendment no. 4 to Compass Diversified Trust's and Compass Group Diversified Holdings LLC's registration statement on Form S-1 (File No. 333-130326, 333-130326-01) filed on April 26, 2006.

**SIGNATURES**

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

COMPASS DIVERSIFIED TRUST

By: /s/ James J. Bottiglieri

James J. Bottiglieri  
*Regular Trustee*

Date: November 9, 2006

**SIGNATURES**

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

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

By: /s/ James J. Bottiglieri

James J. Bottiglieri

*Chief Financial Officer*

Date: November 9, 2006

## EXHIBIT INDEX

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**MANAGEMENT SERVICES AGREEMENT**  
**BY AND BETWEEN**  
**COMPASS GROUP DIVERSIFIED HOLDINGS LLC,**  
**AND**  
**COMPASS GROUP MANAGEMENT LLC**

Dated as of May 16, 2006

Amended as of November 8, 2006

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**MANAGEMENT SERVICES AGREEMENT** (as amended, revised, supplemented or otherwise modified from time to time, this “**Agreement**”), dated as of May 16, 2006 and amended as of November 8, 2006, by and between Compass Group Diversified Holdings LLC, a Delaware limited liability company (the “**Company**”), and Compass Group Management LLC, a Delaware limited liability company (the “**Manager**”). Each party hereto shall be referred to as, individually, a “**Party**” and, collectively, the “**Parties**”.

**WHEREAS**, the Company has determined that it would be in its best interests to appoint a manager to perform the Services described herein and have agreed, therefore, to appoint the Manager to perform such Services; and

**WHEREAS**, the Manager has agreed to act as Manager and to perform the Services described herein on the terms and subject to the conditions set forth herein.

**NOW, THEREFORE**, in consideration of the mutual covenants, representations, warranties and agreements contained herein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Parties hereto agree as follows:

## **ARTICLE I DEFINITIONS**

### **Section 1.1 Definitions.**

Except as otherwise noted, for all purposes of this Agreement, the following terms shall have the respective meanings set forth in this Section 1.1, which meanings shall apply equally to the singular and plural forms of the terms so defined and the words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision:

“**Adjusted Management Fee**” has the meaning set forth in Section 7.2(c) hereof.

“**Adjusted Net Assets**” means, as of any Calculation Date, the *sum* of (i) consolidated total assets (as determined in accordance with GAAP) of the Company as of such Calculation Date, *plus* (ii) the absolute amount of consolidated accumulated amortization of intangibles (as determined in accordance with GAAP) of the Company as of such Calculation Date, *minus* (iii) the absolute amount of Adjusted Total Liabilities of the Company as of such Calculation Date, *plus* (iv) to the extent included in Adjusted Total Liabilities of the Company as of such Calculation Date, the absolute amount of the Company’s liabilities (as determined in accordance with GAAP) in respect of its obligations under the Supplemental Put Agreement (as such term is defined in the LLC Agreement).

“**Adjusted Total Liabilities**” means, as of any Calculation Date, the Company’s consolidated total liabilities (as determined in accordance with GAAP) as of such Calculation Date, after excluding the effect of any outstanding Third Party Indebtedness of the Company.

“**Adjustment Date**” has the meaning set forth in Section 7.2(c) hereof.

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“**Affiliate**” means, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by or under common control with such Person or (ii) any officer, director, general member, member or trustee of such Person. For purposes of this definition, the terms “controlling,” “controlled by” or “under common control with” shall mean, with respect to any Persons, the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise, or the power to elect at least 50% of the directors, managers, general members, or Persons exercising similar authority with respect to such Person.

“**Agreement**” has the meaning set forth in the preamble of this Agreement.

“**Board of Directors**” means, with respect to the Company or any Subsidiary of the Company, as the case may be, the Board of Directors of the Company, such Subsidiary of the Company, or, in each case, any committee thereof that has been duly authorized by the Board of Directors to make a decision on the matter in question or bind the Company or such Subsidiary of the Company, as the case may be, as to the matter in question.

“**Business Day**” means any day other than a Saturday, a Sunday or a day on which banks in The City of New York are required, permitted or authorized, by applicable law or executive order, to be closed for regular banking business.

“**Calculation Date**” means, with respect to any Fiscal Quarter, the last day of such Fiscal Quarter.

“**Chief Executive Officer**” means the Chief Executive Officer of the Company, including any interim Chief Executive Officer.

“**Chief Financial Officer**” means the Chief Financial Officer of the Company, including any interim Chief Financial Officer.

“**Commencement Date**” means the date of the closing of the IPO by the Trust and the Company.

“**Company**” has the meaning set forth in the preamble of this Agreement.

“**Company Officers**” means the Chief Executive Officer and the Chief Financial Officer and any other officer of the Company hereinafter appointed by the Board of Directors of the Company.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Federal Securities Laws**” means, collectively, the Securities Act, the Exchange Act and the rules and regulations promulgated thereunder.

“**Final Management Fee**” has the meaning set forth in Section 7.2(b) hereof.

“**Fiscal Quarter**” means the Company’s fiscal quarter for purposes of its reporting obligations under the Exchange Act.

**“GAAP”** means generally accepted accounting principles in effect in the United States, consistently applied.

**“Incur”** means, with respect to any Indebtedness or other obligation of a Person, to create, issue, acquire (by conversion, exchange or otherwise), assume, suffer, guarantee or otherwise become liable in respect of such Indebtedness or other obligation.

**“Indebtedness”** means, with respect to any Person, (i) any liability for borrowed money, or under any reimbursement obligation relating to a letter of credit, (ii) all indebtedness (including bond, note, debenture, purchase money obligation or similar instrument) for the acquisition of any businesses, properties or assets of any kind (other than property, including inventory, and services purchased, trade payables, other expenses accruals and deferred compensation items arising in the Ordinary Course of Business), (iii) all obligations under leases that have been or should be, in accordance with GAAP, recorded as capital leases, (iv) any liabilities of others described in the preceding clauses (i) to (iii) (inclusive) that such Person has guaranteed or that is otherwise its legal liability, and (v) (without duplication) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in clauses (i) through (iv) above.

**“Indemnified Parties”** has the meaning set forth in Article X hereof.

**“Independent Director”** means a director who (i)(a) is not an officer or employee of the Company, or an officer, director or employee of any of the Subsidiaries of the Company or their Subsidiaries, (b) was not appointed as a director pursuant to the terms of this Agreement and (c) is not affiliated with the Manager or any of its Affiliates, and (ii) satisfies the independence requirements under the Exchange Act and the rules and regulations of the Nasdaq National Market.

**“Investment Advisers Act”** means the Investment Advisers Act of 1940, as amended.

**“Investment Company Act”** means the Investment Company Act of 1940, as amended.

**“IPO”** means the initial public offering of Trust Shares by the Trust, closing on the date hereof.

**“LLC Agreement”** means the Amended and Restated Operating Agreement of Compass Group Diversified Holdings LLC, dated as of the date hereof, including all exhibits and schedules attached thereto, as may be amended, revised, supplemented or otherwise modified from time to time.

**“Losses”** has the meaning set forth in Article X hereof.

**“Management Fee”** has the meaning set forth in Section 7.2(a) hereof.

**“Management Fee Payment Date”** means, with respect to any Calculation Date, the date that is ten (10) Business Days following the receipt by the Company of the calculation of the Management Fee from the MSA Administrator with respect to such Calculation Date.

“**Manager**” has the meaning set forth in the preamble of this Agreement.

“**Manager Marks**” has the meaning set forth in Section 3.7 hereof.

“**MSA Administrator**” means, as of any Calculation Date, (i) for so long as this Agreement remains in full force and effect as of such Calculation Date, the Manager, and (ii) thereafter, the Chief Financial Officer.

“**Nasdaq National Market**” means the Nasdaq National Market (or any successor thereto).

“**Offsetting Management Fees**” has the meaning specified in Section 3.4 hereof.

“**Offsetting Management Services**” has the meaning specified in Section 3.4 hereof.

“**Offsetting Management Services Agreement**” has the meaning specified in Section 3.4 hereof.

“**Ordinary Course of Business**” means, with respect to any Person, an action taken by such Person if such action is (i) consistent with the past practices of such Person and is taken in the normal day-to-day business or operations of such Person and (ii) which is not required to be specifically authorized or approved by the board of directors of such Person.

“**Over-Paid Management Fees**” means, as of any Calculation Date, the amount by which (i) Adjusted Management Fees that were actually paid on all Management Fee Payment Dates preceding such Calculation Date, *exceeded* (ii) Adjusted Management Fees that were actually due and payable by the Company on all such Management Fee Payment Dates, as determined by the MSA Administrator upon availability of the Company’s final consolidated financial statements in accordance with Section 7.2(e); *provided*, that such amount shall not be less than zero.

“**Party**” and “**Parties**” have the meaning set forth in the preamble of this Agreement.

“**Person**” means any individual, company (whether general or limited), limited liability company, corporation, trust, estate, association, nominee or other entity.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**Services**” has the meaning set forth in Section 3.1(b) hereof.

“**Subsidiary**” means, with respect to any Person, any corporation, company, joint venture, limited liability company, association or other Person in which such Person owns, directly or indirectly, more than 50% of the outstanding voting equity securities or interests, the holders of which are generally entitled to vote for the election of the Board of Directors or other governing body of such Person.

“**Termination Fee**” means, as of any Termination Fee Date, the amount equal to the *product* of (i) two (2) *multiplied by* (ii) the *sum* of the four Management Fees calculated with respect to the four Fiscal Quarters immediately preceding such Termination Fee Date.

**“Termination Fee Date”** means the date upon which this Agreement is terminated pursuant to an event described in Section 9.2(a) hereof.

**“Third Party Indebtedness”** means, with respect to any Person, Indebtedness of such Person owed to any lenders or other creditors that are not Affiliated with such Person.

**“Transaction Fee”** has the meaning set forth in Section 3.6 hereof.

**“Transaction Services”** has the meaning set forth in Section 3.6 hereof.

**“Transaction Services Agreements”** has the meaning set forth in Section 3.6 hereof.

**“Trust”** means Compass Diversified Trust, which holds one hundred percent (100%) of the Trust Interest in the Company.

**“Trust Certificate”** means the certificates representing Trust Shares.

**“Trust Interest”** means the trust interests of the Company as provided for and described in the LLC Agreement.

**“Trust Shares”** means the shares of beneficial interest of the Trust where each such share represents an undivided beneficial interest in one Trust Interest; *provided*, that in the event that all outstanding shares of beneficial interest of the Trust are exchanged for Trust Interests in accordance with the terms of the LLC Agreement, all references herein to “Trust Shares” shall automatically be deemed to refer to Trust Interests upon such exchange.

**“Under-Paid Management Fees”** means, as of any Calculation Date, the amount by which (i) Adjusted Management Fees that were actually due and payable by the Company on all Management Fee Payment Dates preceding such Calculation Date, as determined by the MSA Administrator upon availability of the Company’s final consolidated financial statements in accordance with in Section 7.2(e) *exceeded* (ii) Adjusted Management Fees that were actually paid on all such Management Fee Payment Dates; *provided*, that such amount shall not be less than zero.

## ARTICLE II

### APPOINTMENT OF THE MANAGER

#### Section 2.1 Appointment

The Company hereby agrees to, and hereby do, appoint the Manager to perform the Services as set forth in Section 3.1 herein and in accordance with the terms of this Agreement.

#### Section 2.2 Term

The Manager shall provide Services to the Company from the Commencement Date until the termination of this Agreement in accordance with Article IX hereof.



**ARTICLE III**  
**OBLIGATIONS OF THE PARTIES**

**Section 3.1 Obligations of the Manager**

(a) Subject always to the oversight and supervision of the Board of Directors of the Company and the terms and conditions of this Agreement, the Manager shall during the term of this Agreement (i) perform the Services as set forth in Section 3.1(b) below and (ii) comply with the provisions of the LLC Agreement, as amended from time to time, and the operational objectives and business plans of the Company in existence from time to time. The Company shall promptly provide the Manager with all amendments to the LLC Agreement and all stated operational objectives and business plans of the Company approved by the Board of Directors of the Company and any other available information reasonably requested by the Manager.

(b) Subject to Sections 3.4 and 3.6 hereof and Article VII, the Manager agrees and covenants that it shall perform the following services (as may be modified from time to time pursuant to Section 3.5 hereof, the “**Services**”):

- (i) manage the Company’s day-to-day business and operations, including managing its liquidity and capital resources and causing the Company to comply with applicable law;
- (ii) identify, evaluate, manage, perform due diligence on, negotiate and oversee the acquisitions of target businesses by the Company and any other investments of the Company;
- (iii) evaluate, manage, negotiate and oversee the disposition of all or any part of the property, assets or investments of the Company, including dispositions of all or any part of the Company’s Subsidiaries;
- (iv) evaluate and oversee the financial and operational performance of any of the Company’s Subsidiaries, including monitoring the business and operations thereof, and the financial performance of any of the Company’s other investments;
- (v) provide, on the Company’s behalf, managerial assistance to its Subsidiaries;
- (vi) provide or second, as determined necessary by the Manager and in accordance with the terms and conditions of this Agreement and the LLC Agreement, employees of the Manager to serve as executive officers or other employees of the Company or as members of the Company’s Board of Directors; and
- (vii) perform any other services for and on behalf of the Company to the extent that such services are consistent with those that are customarily performed by the executive officers and employees of a publicly listed or quoted Person.

The foregoing Services shall include, but are not limited to, the following: (1) establishing and maintaining books and records of the company in accordance with customary practice and GAAP; (2) recommend to the Company's Board of Directors (x) capital raising activities, including the issuance of debt or equity securities of the Company, the entry into credit facilities or other credit arrangements, structured financings or other capital market transactions, (y) changes or other modifications in the capital structure of the Company, including repurchases; (3) recommend to the Company's Board of Directors the engagement of or, if approval is not otherwise required hereunder, engage agents, consultants or other third party service providers to the Company, including accountants, lawyers or experts, in each case, as may be necessary by the Company from time to time; (4) maintain the Company's property and assets in the Ordinary Course of Business; (5) make recommendations to the Company's Board of Directors with respect to the exercise of voting rights to which the Company is entitled to vote in respect of its investments; (6) manage or oversee litigation, administrative or regulatory proceedings, investigations or any other reviews of the Company's business or operations that may arise in the Ordinary Course of Business or otherwise, subject to the approval of the Company's Board of Directors to the extent necessary in connection with the settlement, compromise, consent to the entry of an order or judgment or other agreement resolving any of the foregoing; (7) establish and maintain appropriate insurance policies with respect to the Company's business and operations; (8) recommend to the Company's Board of Directors the payment of dividends or other distributions on the equity interests of the Company; and (9) attend to the timely calculation and payment of taxes payable, and the filing of all taxes return due, by the Company.

(c) In connection with the performance of its obligations under this Agreement, the Manager shall be required to obtain authorization and approval of the Company's Board of Directors in accordance with the Company's internal policy regarding action requiring Board of Directors approval, as otherwise required by any such Board of Directors (or any applicable committee thereof) or the Company's officers or as otherwise required by applicable law.

(d) In connection with the performance of the Services under this Agreement, the Manager shall have all necessary power and authority to perform, or cause to be performed, such Services on behalf of the Company.

(e) In connection with the performance of its obligations under this Agreement, the Manager is not permitted to engage in any activities that would cause it to become an "investment adviser" as defined in Section 202(a)(11) of the Investment Advisers Act, or any successor provision thereto.

(f) While the Manager is providing the Services under this Agreement, the Manager shall also be permitted to provide services, including services similar to the Services covered hereby, to other Persons, including Affiliates of the Manager. This Agreement and the Manager's obligation to provide the Services under this Agreement shall not create an exclusive relationship between the Manager and its Affiliates, on the one hand, and the Company and its Subsidiaries, on the other.

### **Section 3.2 Obligations of the Company**

(a) The Company shall, and the Company shall cause its Subsidiaries to, do all things reasonably necessary on their part as requested by the Manager consistent with the terms of this Agreement to enable the Company to fulfill its obligations under this Agreement.

(b) The Company shall, and the Company shall cause its Subsidiaries to, take reasonable steps to ensure that:

(i) their officers and employees, and the officers and employees of their Subsidiaries, act in accordance with the terms of this Agreement and the reasonable directions of the Manager in fulfilling the Manager's obligations hereunder and allowing the Manager to exercise its powers and rights hereunder; and

(ii) the Company and its Subsidiaries provide to the Manager all reports (including monthly management reports and all other relevant reports), which the Manager may reasonably require and on such dates as the Manager may reasonably require.

(c) Without the prior written consent of the Manager, the Company shall not amend any provision of the LLC Agreement that adversely affects, either directly or indirectly, the rights of the Manager hereunder.

(d) The Company agrees that, in connection with the performance by the Manager of its obligations hereunder, the Manager may recommend to the Company, and on behalf of the Company may engage in, transactions with any of the Manager's Affiliates; *provided*, that any such transactions shall be subject to the authorization and approval of the Company's nominating and corporate governance committee.

(e) The Company shall maintain a Board of Directors consisting of a majority of Independent Directors.

(f) The Company shall take any and all actions necessary to ensure that it does not become an "investment company" as defined in Section 3(a)(1) of the Investment Company Act, or any successor provision thereto.

### **Section 3.3 Acquisition and Disposition Opportunities**

(a) The Company agrees that the Manager shall have, and do hereby grant to the Manager, exclusive responsibility for reviewing and making recommendations to the Company's Board of Directors with respect to acquisition and disposition opportunities. In the event that any such opportunity is not originated by the Manager, the Company's Board of Directors shall seek a recommendation from the Manager prior to making any decision concerning such opportunity.

(b) In the case of any acquisition or disposition opportunity that involves an Affiliate of the Manager or the Company, the Company's nominating and corporate governance committee shall be required to authorize and approve such transaction.

(c) The Manager shall review each acquisition or disposition opportunity presented to the Manager to determine, in its sole discretion, if such acquisition or disposition opportunity satisfies the Company's acquisition criteria, as established by the Company's Board of Directors from time to time. If the Manager determines, in its sole discretion, if such an opportunity satisfies such criteria, the Manager shall refer such opportunity to the Company's Board of Directors for its authorization and approval prior to any consummation thereof.

(d) In the event that an acquisition opportunity is referred to the Company's Board of Directors by the Manager and the Company's Board of Directors determines not to promptly pursue such opportunity in whole or in part, any part of such opportunity that the Company does not promptly pursue may be pursued by the Manager or may be referred by the Manager to any Person, including Affiliates of the Manager, in the sole discretion of the Manager.

### **Section 3.4 Offsetting Management Services**

Notwithstanding anything else to the contrary herein, the Company agrees that the Manager may, at any time, enter into management services agreements with any one or more of the Subsidiaries of the Company ("**Offsetting Management Services Agreement**"), including by assignment thereof, relating to the performance by the Manager of management services for such Subsidiaries of the Company that may or may not be similar to Services to be provided hereunder ("**Offsetting Management Services**"); *provided*, that such Offsetting Management Services Agreement shall be designated as such therein; *provided, further*, that any Offsetting Management Services provided to a Subsidiary of the Company pursuant to an Offsetting Management Services Agreement shall not be deemed to be Services provided hereunder. Any fee to be paid pursuant to such an Offsetting Management Services Agreement ("**Offsetting Management Fee**") shall be paid directly by the relevant Subsidiary of the Company to the Manager and shall not be deemed an obligation of the Company. Notwithstanding anything else to the contrary in any Offsetting Management Services Agreement, the Parties hereto agree (i) to use commercially reasonable efforts so that Offsetting Management Fees to be paid with respect to any Fiscal Quarter shall be paid at a time so as to permit such Offsetting Management Fees to be utilized for adjustment in accordance Section 7.2(c) hereof with respect to such Fiscal Quarter and (ii) that the aggregate amount of all Offsetting Management Fees to be paid by all of the Subsidiaries of the Company with respect to any Fiscal Quarter shall not exceed the aggregate amount of the Management Fee calculated with respect to such Fiscal Quarter; *provided*, that if the aggregate amount of all Offsetting Management Fees to be paid by all of the Subsidiaries of the Company with respect to any Fiscal Quarter exceed the aggregate amount of Management Fee calculated with respect to such Fiscal Quarter, then the Manager agrees that it shall reduce, on a *pro rata* basis, the Offsetting Management Fees to be paid by each of the Subsidiaries of the Company under each of the Offsetting Management Agreements, determined by reference to the Adjusted Net Assets of each of the Subsidiaries of the Company, until the aggregate amount of all Offsetting Management Fees to be paid by all of the Subsidiaries of the Company with respect to any Fiscal Quarter does not exceed the aggregate amount of Management Fee calculated with respect to such Fiscal Quarter. Each such Offsetting Management Services Agreement shall be terminable, without penalty (including a termination fee), by the relevant Subsidiary of the Company upon 30 days prior written notice. Entry into an Offsetting Management Services Agreement by any Subsidiary of the Company shall not be subject to authorization and approval of the Company's nominating and corporate governance committee.

### **Section 3.5 Change of Services**

(a) The Company and the Manager shall have the right at any time during the term of this Agreement to change the Services provided by the Manager and such changes shall in no way otherwise affect the rights or obligations of any Party hereunder.

(b) Any change in the Services shall be authorized in writing and evidenced by an amendment to this Agreement, as provided in Section 13.9 hereof. Unless otherwise agreed in writing, the provisions of this Agreement shall apply to all changes in the Services.

### Section 3.6 Transaction Services

Notwithstanding anything else to the contrary herein, the Company agrees that the Manager may, at any time, enter into transaction services agreements with one or more of its Subsidiaries ("**Transaction Services Agreements**") relating to the performance by the Manager of certain transaction-related services that are customarily performed by a third-party investment banking firm or similar financial advisor, which may or may not be similar to Services to be provided hereunder, in connection with the acquisition of target businesses by the Company or the Company's Subsidiaries or dispositions of Subsidiaries of the Company or any property or assets of the Company or its Subsidiaries ("**Transaction Services**"); *provided*, that such Transaction Services Agreement shall be designated as such therein; *provided, further*, that any Transaction Services provided to the Company's Subsidiaries pursuant to Transaction Services Agreements shall not be deemed to be Services provided hereunder. The Manager shall contract for the performance of such Transaction Services on market terms and conditions. Entry into a Transaction Services Agreement shall be subject to the authorization and approval of the Company's nominating and corporate governance committee, and the Company's nominating and corporate governance committee shall have the right to take whatever measures they deem prudent to confirm the market terms of any Transaction Services Agreement. Any fee to be paid pursuant to a Transaction Services Agreement (the "**Transaction Fee**") shall be paid by the relevant Subsidiary of the Company that is a party to the corresponding Transaction Services Agreement directly to the Manager. Transaction Fees are not Offsetting Management Fees and shall not have the effect of Offsetting Management Fees as provided herein. Any Transaction Services Agreement may also provide for the reimbursement of costs and expenses of the Manager in the performance of any Transaction Services, including costs and expenses referenced in Section 7.3(b)(iii) hereof.

### Section 3.7 License

(a) The Manager hereby grants the Company, subject to the terms and conditions of this Agreement, a non-exclusive, royalty-free right to use the following trademarked names ("**Manager Marks**") in connection with its business and operations or as may be required to comply with applicable law:

- (i) Compass Diversified Trust
- (ii) Compass Group Diversified Holdings
- (iii) [www.compassdiversifiedtrust.com](http://www.compassdiversifiedtrust.com)
- (iv) [www.compasstrust.com](http://www.compasstrust.com)

Notwithstanding the foregoing, the Company shall be permitted to (i) sublicense the use, on any terms and conditions consistent and coextensive with this Section 3.7, of any of the Manager Marks to the Trust to use in connection with its business and operations or as may be required to comply with applicable law and (ii) sublicense the use, on any terms and conditions consistent and co-extensive with this Section 3.7, of any of the Manager Marks to any of the Company's Subsidiaries to use in connection with its business and operations or as may be required to comply with applicable law.

(b) The Company agrees to notify the Manager promptly upon notice of (a) any conflicting uses of, or any applications of or registrations for, a trademark, service mark or logo that may conflict with the Manager Marks, (b) any acts of infringement or unfair competition involving the Manager Marks or (c) any allegations that the use of the Manager Marks by the Company or any of its Affiliates infringe upon the trademark or service mark or other rights, including without limitation, rights relating to unfair competition of any other Person.

(c) The Manager shall have the sole right to initiate any opposition, cancellation or infringement proceedings necessary to enforce the Manager Marks. The Manager shall have the right to include the Company or its Affiliates as a party in any such enforcement proceedings where necessary, and the Company agrees to join in such proceedings, at the Manager's sole cost and expense as a voluntary plaintiff or claimant upon request of the Manager, and the Company shall cooperate with the Manager in such proceedings, at the Manager's sole cost and expense. The Manager shall have the sole right to control and settle any such proceedings.

## **ARTICLE IV POWERS OF THE MANAGER**

### **Section 4.1 Powers of the Manager**

(a) The Manager shall have no power to enter into any contract for or on behalf of the Company or otherwise subject it to any obligation, such power to be the sole right and obligation of the Company, acting through its Board of Directors and/or the Company Officers.

(b) Subject to Section 4.2 and for purposes other than to delegate its duties and powers to perform the Services hereunder, the Manager shall have the power to engage any agents (including real estate agents and managing agents), valuers, contractors and advisors (including accounting, financial, tax and legal advisors) that it deems necessary or desirable in connection with the performance of its obligations hereunder, which costs therefor shall be subject to reimbursement in accordance with Section 7.3 hereto.

### **Section 4.2 Delegation**

The Manager may delegate or appoint:

(a) Any of its Affiliates as its agent, at its own cost and expense, to perform any or all of the Services hereunder; or

(b) Any other Person, whether or not an Affiliate of the Manager, as its agent, at its own cost and expense, to perform those Services hereunder which, in the sole discretion of the Manager, are not critical to the ability of the Manager to satisfy its obligations hereunder; *provided, however*, that, in each case, the Manager shall not be relieved of any of its obligations or duties owed to the Company hereunder as a result of such delegation. The Manager shall be permitted to share Company information with its appointed agents subject to appropriate and reasonable confidentiality arrangements. For the avoidance of doubt, any reference to Manager herein shall include its delegates or appointees pursuant to this Section 4.2.

**Section 4.3 Manager’s Obligations, Duties and Powers Exclusive**

The Company agrees that during the term of this Agreement, the obligations, duties and powers imposed on and granted to the Manager under Article III and this Article IV are to be performed or held exclusively by the Manager or its delegates and the Company shall not, through the exercise of the powers of their employees, Boards of Directors or their shareholders or members, as the case may be, perform any of the Services except in circumstances where it is necessary to do so to comply with applicable law or as otherwise agreed to or delegated, in accordance with Section 4.2 hereof, by the Manager in writing.

**ARTICLE V  
INSPECTION OF RECORDS**

**Section 5.1 Books and Records of the Company**

At all reasonable times and on reasonable notice, the Manager and any Person authorized by the Manager shall have access to, and the right to inspect, for any reasonable purpose, during the term of this Agreement and for a period of five (5) years after termination hereof, the books, records and data stored in computers and all documentation of the Company pertaining to all Services performed by the Manager or the Management Fee to be paid by the Company to the Manager, in each case, hereunder. There shall be no cost or expense charged by any Party to another Party pursuant to the exercise of rights under this Section 5.1.

**Section 5.2 Books and Records of the Manager**

At all reasonable times and on reasonable notice, any Person authorized by the Company shall have access to, and the right to inspect the books, records and data stored in computers and all documentation of the Manager pertaining to all Services performed by the Manager or the Management Fee to be paid by the Company to the Manager, in each case, hereunder. There shall be no cost or expense charged by any Party to another Party pursuant to the exercise of rights under this Section 5.2.

**ARTICLE VI**  
**AUTHORITY OF THE COMPANY**  
**AND THE MANAGER**

Each Party represents to the others that it is duly authorized with full power and authority to execute, deliver and perform its obligations and duties under this Agreement. The Company represents that the engagement of the Manager has been duly authorized by the Board of Directors of the Company and is in accordance with all governing documents of the Company.

**ARTICLE VII**  
**MANAGEMENT FEE; EXPENSES**

**Section 7.1 IPO Expenses**

The Company agrees to reimburse the Manager and its Affiliates, within five (5) Business Days after the Commencement Date, for certain costs and expenses Incurred or to be Incurred prior to and in connection with the IPO upon the provision of reasonably sufficient support for such reimbursement. Any such reimbursement shall be made in U.S. dollars by wire transfer in immediately available funds to an account or accounts designated by the Manager from time to time.

**Section 7.2 Management Fee**

(a) **Obligation.** Subject to the terms and conditions set forth in this Section 7.2, for the term of this Agreement, (i) the MSA Administrator shall calculate the fee payable to the Manager in accordance with this Section 7.2 (the "**Management Fee**"), and the components thereof, in accordance with Section 7.2(b) hereof and (ii) the Company shall pay the Management Fee to the Manager in accordance with Section 7.2(d) hereof.

(b) **Calculation of Management Fee.** Subject to Section 7.2(e) hereof, as payment to the Manager for performing Services hereunder during any Fiscal Quarter or any part thereof, the MSA Administrator, as of any Calculation Date with respect to such Fiscal Quarter, shall calculate, on or promptly following such Calculation Date, the Management Fee with respect to such Fiscal Quarter, which shall be equal to, as of such Calculation Date, the *product* of (i) 0.5%, *multiplied by* (ii) Adjusted Net Assets as of such Calculation Date; *provided, however,* that, with respect to the Fiscal Quarter in which the Commencement Date occurs, the Management Fee shall be equal to the *product* of (i)(x) 0.5%, *multiplied by* (y) the Adjusted Net Assets as of such Calculation Date, *multiplied by* (ii) a fraction, the numerator of which is the number of days from and including the Commencement Date to and including the last day of such Fiscal Quarter and the denominator of which is the number of days in such Fiscal Quarter; *provided, further, however,* that, with respect to the Fiscal Quarter in which this Agreement is terminated, the Management Fee shall be equal to the *product* of (i)(x) 0.5%, *multiplied by* (y) the Adjusted Net Assets as of such Calculation Date, *multiplied by* (ii) a fraction, the numerator of which is the number of days from and including the first day of such Fiscal Quarter to but excluding the date upon which this Agreement is terminated and the denominator of which is the number of days in such Fiscal Quarter (such amount so calculated in accordance with this proviso, the "**Final Management Fee**").



(c) **Adjustment of Management Fee.** The amount of any Management Fee calculated in accordance with Section 7.2(b) hereof as of any Calculation Date shall be adjusted, on a dollar-for-dollar basis (such Management Fee, as adjusted, the “**Adjusted Management Fee**”), by the MSA Administrator immediately prior to the Management Fee Payment Date with respect to such Calculation Date (such date of adjustment, the “**Adjustment Date**”) as follows:

(i) *reduced*, on a dollar-for-dollar basis, by the aggregate amount of all Offsetting Management Fees, if any, received by the Manager from any of the Subsidiaries of the Company with respect to such Fiscal Quarter as of the date of such adjustment;

(ii) *reduced*, on a dollar-for-dollar basis, by the aggregate amount of all Over-Paid Management Fees, if any, existing as of such Calculation Date;

(iii) *increased*, on a dollar-for-dollar basis, by the aggregate amount of all Under-Paid Management Fees, if any, existing as of such Calculation Date; and

(iv) *increased*, on a dollar-for-dollar basis, by the aggregate amount of all accrued and unpaid Management Fees, if any, as of such Calculation Date, without duplication of any of the foregoing.

(d) **Payment of Adjusted Management Fee.** Subject to Section 7.2(f) hereof, the Company shall pay to the Manager, on the Management Fee Payment Date with respect to any Calculation Date, the Adjusted Management Fee as of such Calculation Date. Any such payment shall be made in U.S. dollars by wire transfer in immediately available funds to an account or accounts designated by the Manager from time to time.

(e) **Basis for Calculation of Management Fee and Adjusted Management Fee.** The calculation of Management Fee, including the components thereof, with respect to any Fiscal Quarter on any Calculation Date shall be based on (i) the Company’s audited consolidated financial statements to the extent available, (ii) if audited consolidated financial statements are not available, then the Company’s unaudited consolidated financial statements to the extent available, and (iii) if neither audited nor unaudited consolidated financial statements are available, then the Company’s books and records then available; *provided*, that, with respect to any calculation of the Management Fee based on the Company’s books and records, upon availability of the earlier of (x) the Company’s audited consolidated financial statements and (y) the Company’s unaudited consolidated financial statements, in each case, relating to amounts previously calculated on such Calculation Date by reference to the Company’s books and records, the MSA Administrator shall recalculate (A) any Management Fees, and any components thereof, that were previously calculated based on such books and records and (B) any Adjusted Management Fees that were calculated based on such Management Fees, in each case, to determine if any Over-Paid Management Fee or Under-Paid Management Fee were outstanding as of such Calculation Date; *provided, further*, that the amount so recalculated shall be conclusive and binding on the Parties hereto and no further recalculations shall be required or

permitted except that a further recalculation shall be required and performed (A) upon a demonstration of clear error with respect to any prior calculation or recalculation or (B) upon the restatement of the consolidated financial statements of the Company, or any amounts therein, underlying any prior calculation or recalculation, in each case, at any time. The calculation of Adjusted Management Fees, including the components thereof, as of any Adjustment Date shall be made based on information that is available as of such Adjustment Date; *provided*, that if any events, including the payment of Offsetting Management Fees, occur after such Adjustment Date that would affect the amount of Adjusted Management Fees calculated as of such Adjustment Date, then the MSA Administrator shall recalculate Adjusted Management Fees as of such Adjustment Date to determine if any Over-Paid Management Fee or Under-Paid Management Fee were created as of the Calculation Date immediately succeeding such Adjustment Date. Notwithstanding the foregoing, the calculation of the Final Management Fee, including the components thereof, shall be made and based on the Company's unaudited consolidated financial statements for the applicable Fiscal Quarter when such unaudited consolidated financial statements are available; *provided*, that, once calculated, no further recalculation of Final Management Fee shall be required or permitted.

(f) **Sufficient Liquidity.** If the Company does not have sufficient liquid assets to timely pay the entire amount of the Management Fee due on any Management Fee Payment Date, the Company shall liquidate assets or incur indebtedness in order to pay such Management Fee in full on such Management Fee Payment Date; *provided*, that the Manager may elect, in its sole discretion by delivery of written notice to the Company prior to such Management Fee Payment Date, to allow the Company to defer the payment of all or any portion of the Management Fee otherwise due and payable on such Management Fee Payment Date until the next succeeding Management Fee Payment Date and, thereby, enable the Company to avoid such liquidation or incurrence. For the avoidance of doubt, the Manager may make such election to allow the Company to defer the payment of Management Fees more than once.

(g) **Books and Records.** The MSA Administrator shall maintain cumulative books and records with respect to the details of any calculations made pursuant to this Section 7.2, which records shall be available for inspection and reproduction at any time upon request by the Board of Directors of the Company and, if the Manager is not the MSA Administrator, the Manager.

### **Section 7.3 Reimbursement of Expenses**

(a) Subject to Sections 7.1 and 8.2 hereof, the Company shall reimburse the Manager for the following amounts that are actually incurred by the Manager during the term of this Agreement:

(i) all costs and expenses of the Company that are incurred by the Manager or its affiliates on behalf of the Company, including all out-of-pocket costs and expenses incurred in connection with performing services hereunder, and all costs and expenses the reimbursement of which is specifically approved by the Board of Directors of the Company; and

(ii) the compensation and other costs and expenses of the Chief Financial Officer and his or her staff, as approved by the Company's compensation committee.

(b) Notwithstanding the foregoing or anything else to the contrary herein, none of the Company, any Subsidiary of the Company or their Subsidiaries shall be obligated or responsible for reimbursing or otherwise paying for any costs or expenses relating to (i) the Manager's overhead or any other costs and expenses relating to the Manager's conduct or maintenance of its business and operations as a provider of services, (ii) costs and expenses Incurred by the Manager in connection with the identification, evaluation, management, performance of due diligence on, negotiating and oversight of potential acquisitions by the Company where the Company (or the Manager on behalf of the Company) does not submit an indication of interest or letter of intent to pursue such potential acquisition, including costs and expenses relating to travel, marketing and attendance at industry events and retention of outside service providers relating thereto and (iii) costs and expenses Incurred by the Manager in connection with the identification, evaluation, management, performance of due diligence on, negotiating and oversight of an acquisition by the Company if both (x) such acquisition is actually closed by the Company and (y) the Subsidiary so acquired, by any manner whatsoever, in connection with such acquisition has entered into a Transaction Services Agreement with the Manager under which such costs and expenses are being reimbursed.

(c) Any such reimbursement shall be made upon demand by the Manager in U.S. dollars by wire transfer in immediately available funds to an account or accounts designated by the Manager from time to time.

(d) Except as otherwise provided for in this Section 7.3, all reimbursements made pursuant to this Section 7.3 shall be reviewed by the Company's compensation committee on an annual basis in connection with the preparation of the Company's year-end audited consolidated financial statements. If the Company's compensation committee identifies any discrepancy in such reimbursements, then the Company's compensation committee, on behalf of the Company, and the Manager shall mutually resolve such discrepancy.

## ARTICLE VIII

### SECONDMENT OF OFFICERS BY THE MANAGER

#### Section 8.1 Secondment of the Chief Executive Officer and Chief Financial Officer

The Manager shall second to the Company individuals to serve as the Company's Chief Executive Officer and Chief Financial Officer. The Company's Board of Directors shall elect the seconded Chief Executive Officer and Chief Financial Officer as officers of the Company in accordance with the terms of the LLC Agreement and the operational objectives and business plans of the Company in existence from time to time. The seconded Chief Executive Officer and Chief Financial Officer shall report directly, and be subject, to the Company's Board of Directors.

## **Section 8.2 Remuneration of the Chief Executive Officer and Chief Financial Officer**

(a) The Chief Executive Officer and Chief Financial Officer seconded to the Company pursuant to this Article VIII shall, at all times, remain employees of, and be remunerated by, the Manager or an Affiliate of the Manager.

(b) Except as set forth in Section 8.2(c) hereof, the Services performed for the Company by the Chief Executive Officer and all other personnel, if any, of the Manager or its Affiliates shall be provided at the cost of the Manager or an Affiliate of the Manager. For the avoidance of doubt, except as set forth in Section 8.2(c) hereof, the Company shall have no obligation to reimburse the Manager for the compensation and other expenses of any employees, representatives, delegates and seconded officers of the Manager and its Affiliates.

(c) The Services performed by the Chief Financial Officer and his or her staff shall be provided at the cost of the Manager or an Affiliate of the Manager and reimbursed by the Company pursuant to Section 7.3 of this Agreement.

(d) The remuneration of the Chief Financial Officer and any member of his or her staff that serves as an executive officer of the Company, shall be determined and approved by the Company's compensation committee upon such Person's engagement and on an annual basis thereafter, with each annual determination and approval occurring in the year prior to the year to which such remuneration relates by reference to the following:

(i) The standard remuneration guidelines as adopted by the Company or the Manager from time to time;

(ii) The respective individual's performance, the Manager's performance and the performance, financial or otherwise, of the Company and its Subsidiaries; and

(iii) The assessment by the Board of Directors of the Company of the respective individual's performance and the performance of the Manager.

(e) The Manager shall disclose the amount of remuneration of the Chief Financial Officer and any other officer or employee seconded to the Company, including the Chief Executive Officer, to the Board of Directors of the Company to the extent required for the Company to comply with the requirements of applicable law, including the Federal Securities Laws.

## **Section 8.3 Secondment of Additional Officers**

The Manager and the Company's Board of Directors may agree from time to time that the Manager shall second to the Company one or more additional individuals to serve as officers or otherwise of the Company, upon such terms as the Manager and the Company's Board of Directors may mutually agree. Any such individuals shall have such titles and fulfill such functions as the Manager and the Company may mutually agree.

## **Section 8.4 Removal of Seconded Officers**

The Company's Board of Directors, after due consultation with the Manager, may at any time request that the Manager replace any individual seconded to the Company as provided in this Article VIII and the Manager shall, as promptly as practicable, replace any individual with respect to whom the Board of Directors shall have made its request, subject to the requirements for the election of officers under the LLC Agreement.

## **Section 8.5 Insurance**

The Company agrees it shall maintain adequate directors and officers insurance for any individuals seconded to the Company, with liability coverage of no less than \$15 million.

## **ARTICLE IX**

### **TERMINATION; RESIGNATION AND REMOVAL OF THE MANAGER**

#### **Section 9.1 Resignation by the Manager**

The Manager may resign and terminate this Agreement at any time with 90 days' prior written notice to the Company, which right shall not be contingent upon the finding of a replacement manager. However, if the Manager resigns, until the date on which the resignation becomes effective, the Manager shall, upon request of the Company's Board of Directors, use reasonable efforts to assist the Company's Board of Directors to find a replacement manager at no cost and expense to the Company.

#### **Section 9.2 Removal of the Manager**

The Company's Board of Directors may terminate this Agreement and the Manager's appointment if, at any time:

(a) (i) a majority of the Company's Board of Directors vote to terminate this Agreement and (ii) the holders of at least a majority of the then outstanding Trust Shares (other than Trust Shares beneficially owned by the Manager) vote to terminate this Agreement.

(b) neither I. Joseph Massoud nor his designated successor is the managing member of the Manager, and such change occurred without the prior written consent of the Company's Board of Directors;

(c) there is a finding by a court of competent jurisdiction in a final, non-appealable order that (i) the Manager materially breached the terms of this Agreement and such breach continued unremedied for sixty (60) days after the Manager received written notice from the Company setting forth the terms of such breach, or (ii) the Manager (x) acted with gross negligence, willful misconduct, bad faith or reckless disregard in performing its duties and obligations under this Agreement or (y) engaged in fraudulent or dishonest acts in connection with the business and operations of the Company;

(d) (i) the Manager has been convicted of a felony under Federal or State law, (ii) the Company's Board of Directors finds that the Manager is demonstrably and materially incapable of performing its duties and obligations under this Agreement, and (iii) the holders of at least sixty-six and two-thirds percentage (66 <sup>2</sup>/<sub>3</sub>%) of then outstanding Trust Shares (other than Trust Shares beneficially owned by the Manager) vote to terminate this Agreement; or

(e) (i) there is a finding by a court of competent jurisdiction that the Manager has (x) engaged in fraudulent or dishonest acts in connection with the business or operations of the Company or (y) gross negligence, willful misconduct, bad faith or reckless disregard in performing its duties and obligations under this Agreement, and (ii) the holders of at least sixty-six and two-thirds percentage (66 2/3%) of the then outstanding Trust Shares (other than Trust Shares beneficially owned by the Manager) vote to terminate this Agreement.

### **Section 9.3 Termination**

Subject to Section 13.4, this Agreement shall terminate upon the resignation or removal of the Manager in accordance with Sections 9.1 or 9.2 hereof.

### **Section 9.4 Seconded Individuals**

Upon the termination of this Agreement, all seconded officers, including the Chief Executive Officer and Chief Financial Officer, employees, representatives and delegates of the Manager and its Affiliates who perform Services hereunder, shall resign their respective positions with the Company and cease working on behalf of the Company as of the date of such termination or at such other time as determined by the Manager. Any Manager appointed director may continue to serve on the Company's Board of Directors subject to the terms of the LLC Agreement.

### **Section 9.5 Termination of License; Withdrawal of Branding**

If this Agreement is terminated pursuant to Section 9.2 of this Agreement, the right granted pursuant to Section 3.7 hereof shall terminate within 180 days of such termination and the Company agrees, and the Company agrees to cause the Trust and its Subsidiaries, to cease using the term "Compass" or any of the Manager Marks entirely in its or their business or operations, as the case may be, within 180 days of such termination, including by changing its name to remove any reference to the term "Compass" or the Manager Marks; *provided*, that, to the extent the Board of Directors of the Company deems it necessary or advisable, the Manager agrees that the Trust, the Company and the Subsidiaries of the Company may use the term "Compass" or any of the Manager Marks in referencing their previous names.

### **Section 9.6 Directions**

After a written notice of termination has been given under this Article IX, the Company may direct the Manager to undertake any actions necessary to transfer any aspect of the ownership or control of the assets of the Company to the Company or to any nominee of the Company and to do all other things necessary to bring the appointment of the Manager to an end, and the Manager shall comply with all such reasonable directions. In addition, the Manager shall, at the Company's expense, deliver to any new manager or the Company any books or records held by the Manager under this Agreement and shall execute and deliver such instruments and do such things as may reasonably be required to permit new management of the Company to effectively assume its responsibilities.

### **Section 9.7 Payments Upon Termination**

(a) Notwithstanding anything in this Agreement to the contrary, the fees, costs and expenses payable to the Manager pursuant to Article VII hereof shall be payable to the Manager upon, and with respect to, the termination of this Agreement pursuant to this Article IX. All payments made pursuant to this Section 9.7(a) shall be made in accordance with Article VII hereof.

(b) Upon termination of this Agreement pursuant to the event set forth in Section 9.2(a) hereof, the Company shall pay the Termination Fee to the Manager. The Termination Fee shall be payable in eight (8) equal quarterly installments, with the first such installment being paid on or within five (5) Business Days of the last day of the Fiscal Quarter in which the Termination Fee Date occurs and each subsequent installment being paid on or within five (5) Business Days of the last day of each subsequent Fiscal Quarter, until such time as the Termination Fee is paid in full to the Manager. Any payments made pursuant to this Section 9.7(b) shall be made in U.S. dollars by wire transfer in immediately available funds to an account or accounts designated by the Manager from time to time.

(c) Subject to Section 9.7(a) hereof, no termination fee shall be due or payable by the Company to the Manager upon termination of this Agreement pursuant to any of the events set forth in Section 9.2(b) to Section 9.2(e) hereof, inclusive.

## **ARTICLE X INDEMNITY**

### **Section 10.1 Indemnity**

The Company shall indemnify, reimburse, defend and hold harmless the Manager and its successors and permitted assigns, together with their respective employees, officers, members, managers, directors, agents and representatives (collectively the “*Indemnified Parties*”), from and against all losses (including lost profits), costs, damages, injuries, taxes, penalties, interests, expenses, obligations, claims and liabilities (joint or severable) of any kind or nature whatsoever (collectively “*Losses*”) that are Incurred by such Indemnified Parties in connection with, relating to or arising out of (i) the breach of any term or condition of this Agreement, or (ii) the performance of any Services hereunder; *provided, however*, that the Company shall not be obligated to indemnify, reimburse, defend or hold harmless any Indemnified Party for any Losses Incurred, by such Indemnified Party in connection with, relating to or arising out of:

- (a) a breach by such Indemnified Party of this Agreement;
- (b) the gross negligence, willful misconduct, bad faith or reckless disregard of such Indemnified Party in the performance of any Services hereunder; or
- (c) fraudulent or dishonest acts of such Indemnified Party with respect to the Company or any of its Subsidiaries.

The rights of any Indemnified Party referred to above shall be in addition to any rights that such Indemnified Party shall otherwise have at law or in equity.

Without the prior written consent of the Company, no Indemnified Party shall settle, compromise or consent to the entry of any judgment in, or otherwise seek to terminate any, claim, action, proceeding or investigation in respect of which indemnification could be sought hereunder unless (a) such Indemnified Party indemnifies the Company from any liabilities arising out of such claim, action, proceeding or investigation, (b) such settlement, compromise or consent includes an unconditional release of the Company and Indemnified Party from all liability arising out of such claim, action, proceeding or investigation and (c) the parties involved agree that the terms of such settlement, compromise or consent shall remain confidential.

#### **Section 10.2 Insurance**

The Company agrees it shall maintain adequate insurance in support of the indemnity obligation set forth in this Article X.

### **ARTICLE XI**

#### **LIMITATION OF LIABILITY OF THE MANAGER**

##### **Section 11.1 Limitation of Liability**

The Manager shall not be liable for, and the Company shall not take, or permit to be taken, any action against the Manager to hold the Manager liable for, any error of judgment or mistake of law or for any loss suffered by the Company or its Subsidiaries (including, without limitation, by reason of the purchase, sale or retention of any security) in connection with the performance of the Manager's duties under this Agreement, except for a loss resulting from gross negligence, willful misconduct, bad faith or reckless disregard on the part of the Manager in the performance of its duties and obligations under this Agreement, or its fraudulent or dishonest acts with respect to the Company or any of its Subsidiaries.

##### **Section 11.2 Reliance of Manager**

The Manager may take and may act and rely upon:

(a) the opinion or advice of legal counsel, which may be in-house counsel to the Company or the Manager, any U.S.-based law firm, or other legal counsel reasonably acceptable to the Board of Directors of the Company, in relation to the interpretation of this Agreement or any other document (whether statutory or otherwise) or generally in connection with the Company;

(b) advice, opinions, statements or information from bankers, accountants, auditors, valuation consultants and other Persons consulted by the Manager who are in each case believed by the Manager in good faith to be expert in relation to the matters upon which they are consulted;

(c) a document which the Manager believes in good faith to be the original or a copy of an appointment by the Trust in respect of any Trust Interest or holder of a Trust Certificate in respect of a share of Trust Shares of a Person to act as such Person's agent for any purpose connected with the Company; and



(d) any other document provided to the Manager in connection with the Company upon which it is reasonable for the Manager to rely.

The Manager shall not be liable for anything done, suffered or omitted by it in good faith in reliance upon such opinion, advice, statement, information or document.

## **ARTICLE XII LEGAL ACTIONS**

### **Section 12.1 Third Party Claims**

(a) The Manager shall notify the Company promptly of any claim made by any third party in relation to the assets of the Company and shall send to the Company any notice, claim, summons or writ served on the Manager concerning the Company.

(b) The Manager shall not, without the prior written consent of the Board of Directors of the Company, purport to accept or admit any claims or liabilities of which it receives notification pursuant to Section 12.1(a) above on behalf of the Company or make any settlement or compromise with any third party in respect of the Company.

## **ARTICLE XIII MISCELLANEOUS**

### **Section 13.1 Obligation of Good Faith; No Fiduciary Duties**

The Manager shall perform its duties under this Agreement in good faith and for the benefit of the Company. The relationship of the Manager to the Company is as an independent contractor and nothing in this Agreement shall be construed to impose on the Manager an express or implied fiduciary duty.

### **Section 13.2 Binding Effect**

This Agreement shall be binding upon, shall inure to the benefit of and be enforceable by the Parties hereto and their respective successors and permitted assigns.

### **Section 13.3 Compliance**

(a) The Manager shall (and must ensure that each of its officers, agents and employees) comply with any law, including the Federal Securities Laws and the securities laws of any applicable jurisdiction and the Nasdaq National Market (or any successor thereto) rules and regulations, in each case, as in effect from time to time, to the extent that it concerns the functions of the Manager under this Agreement.

(b) The Manager shall maintain management systems, policies and internal controls and procedures that reasonably ensure that the Manager and its employees comply with the terms and conditions of this Agreement, as well as comply with the internal policies, controls and procedures established by the Company from time to time, including, without limitation, those relating to trading policies, conflicts of interest and similar corporate governance measures.

#### **Section 13.4 Effect of Termination**

This Agreement shall be effective as of the date first above written and shall continue in full force and effect thereafter until termination hereof in accordance with Article IX. The obligations of the Company set forth in Articles VII, IX and X and Sections 8.2(c), 11.1, 13.5, 13.9 and 13.17 hereof shall survive such termination of this Agreement, subject to applicable law.

#### **Section 13.5 Notices**

Any notice or other communication required or permitted under this Agreement shall be deemed to have been duly given (i) five (5) Business Days following deposit in the mails if sent by registered or certified mail, postage prepaid, (ii) when sent, if sent by facsimile transmission, if receipt thereof is confirmed by telephone, (iii) when delivered, if delivered personally to the intended recipient and (iv) two (2) Business Days following deposit with a nationally recognized overnight courier service, in each case addressed as follows:

If to the Company, to:

Attention: Chief Executive Officer  
Compass Group Diversified Holdings LLC  
Sixty One Wilton Road, Second Floor  
Westport, CT 06880  
Fax: 203-221-8253

with a copy (which shall not constitute notice) to its counsel:

Attention: Cynthia M. Krus  
Sutherland Asbill & Brennan LLP  
1275 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004  
Fax: 202-637-3593

If to the Manager, to:

Attention: I. Joseph Massoud  
Compass Group Management LLC  
Sixty One Wilton Road, Second Floor  
Westport, CT 06880  
Fax: 203-221-8253

with a copy (which shall not constitute notice) to its counsel:

Attention: Stephen C. Mahon  
Squire Sanders & Dempsey LLP  
312 Walnut Street, Suite 3500  
Cincinnati, OH 45202  
Fax: 513-361-1201

and

Attention: Brian B. Snarr  
Morrison Cohen, LLP  
909 Third Avenue  
New York, NY 10022  
Fax: 212-735-8708

or to such other address or facsimile number as any such Party may, from time to time, designate in writing to all other Parties hereto, and any such communication shall be deemed to be given, made or served as of the date so delivered or, in the case of any communication delivered by mail, as of the date so received.

### **Section 13.6 Headings**

The headings in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect.

### **Section 13.7 Applicable Law**

**This Agreement, the legal relations between and among the Parties and the adjudication and the enforcement thereof shall be governed by and interpreted and construed in accordance with the laws of the State of New York, without regard to the conflicts of law provisions thereof to the extent such principles or rules would require or permit the application of the laws of another jurisdiction.**

### **Section 13.8 Submission to Jurisdiction; Waiver of Jury Trial**

Each of the Parties hereby irrevocably acknowledges and consents that any legal action or proceeding brought with respect to any of the obligations arising under or relating to this Agreement may be brought in the courts of the State of New York, County of New York or in the United States District Court for the Southern District of New York and each of the Parties hereby irrevocably submits to and accepts with regard to any such action or proceeding, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts. Each Party hereby further irrevocably waives any claim that any such courts lack jurisdiction over such Party, and agrees not to plead or claim, in any legal action or proceeding with respect to this Agreement or the transactions contemplated hereby brought in any of the aforesaid courts, that any such court lacks jurisdiction over such Party. Each Party irrevocably consents to the service of process in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to such party, at its address for notices set forth in Section 13.5 hereof, such service to become effective ten (10) days after such mailing.

Each Party hereby irrevocably waives any objection to such service of process and further irrevocably waives and agrees not to plead or claim in any action or proceeding commenced hereunder or under any other documents contemplated hereby that service of process was in any way invalid or ineffective. The foregoing shall not limit the rights of any Party to serve process in any other manner permitted by applicable law. The foregoing consents to jurisdiction shall not constitute general consents to service of process in the State of New York for any purpose except as provided above and shall not be deemed to confer rights on any Person other than the respective Parties.

Each of the Parties hereby waives any right it may have under the laws of any jurisdiction to commence by publication any legal action or proceeding with respect to this Agreement. To the fullest extent permitted by applicable law, each of the Parties hereby irrevocably waives the objection which it may now or hereafter have to the laying of the venue of any suit, action or proceeding arising out of or relating to this Agreement in any of the courts referred to in this Section 13.8 and hereby further irrevocably waives and agrees not to plead or claim that any such court is not a convenient forum for any such suit, action or proceeding.

The Parties agree that any judgment obtained by any Party or its successors or assigns in any action, suit or proceeding referred to above may, in the discretion of such Party (or its successors or assigns), be enforced in any jurisdiction, to the extent permitted by applicable law.

The Parties agree that the remedy at law for any breach of this Agreement may be inadequate and that should any dispute arise concerning any matter hereunder, this Agreement shall be enforceable in a court of equity by an injunction or a decree of specific performance. Such remedies shall, however, be cumulative and nonexclusive, and shall be in addition to any other remedies which the Parties may have.

Each Party hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation as between the Parties directly or indirectly arising out of, under or in connection with this Agreement or the transactions contemplated hereby or disputes relating hereto. Each Party (i) certifies that no representative, agent or attorney of any other Party has represented, expressly or otherwise, that such other Party would not, in the event of litigation, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other Parties have been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this Section 13.8.

#### **Section 13.9 Amendment; Waivers**

No term or condition of this Agreement may be amended, modified or waived without the prior written consent of the Party against whom such amendment, modification or waiver will be enforced; *provided*, that any amendment of Article VII or section 8.2 hereof shall not be effective as to any Party hereto unless such amendment was authorized and approved by the Company's compensation committee. Any waiver granted hereunder shall be deemed a specific waiver relating only to the specific event giving rise to such waiver and not as a general waiver of any term or condition hereof.

### **Section 13.10 Remedies to Prevailing Party**

If any action at law or equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs, and necessary disbursements in addition to any other relief to which such party may be entitled.

### **Section 13.11 Severability**

Each provision of this Agreement is intended to be severable from the others so that if, any provision or term hereof is illegal, invalid or unenforceable for any reason whatsoever, such illegality, invalidity or unenforceability shall not affect or impair the validity of the remaining provisions and terms hereof; *provided, however*, that the provisions governing payment of the Management Fee described in Article VII hereof are not severable.

### **Section 13.12 Benefits Only to Parties**

Nothing expressed by or mentioned in this Agreement is intended or shall be construed to give any Person other than the Parties and their respective successors or permitted assigns, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the Parties and their respective successors and permitted assigns, and for the benefit of no other Person.

### **Section 13.13 Further Assurances**

Each Party hereto shall take any and all such actions, and execute and deliver such further agreements, consents, instruments and any other documents as may be necessary from time to time to give effect to the provisions and purposes of this Agreement.

### **Section 13.14 No Strict Construction**

The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event any ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by all Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

### **Section 13.15 Entire Agreement**

This Agreement constitutes the sole and entire agreement of the Parties with regards to the subject matter of this Agreement. Any written or oral agreements, statements, promises, negotiations or representations not expressly set forth in this Agreement are of no force and effect.

### **Section 13.16 Assignment**

This Agreement shall not be assignable by either party except by the Manager to any Person with which the Manager may merge or consolidate or to which the Manager transfers substantially all of its assets, and then only in the event that such assignee assumes all of the obligations to the Company and the Subsidiaries of the Company hereunder.

### Section 13.17 Confidentiality

(a) The Manager shall not, and the Manager shall cause its Affiliates and their respective agents and representatives not to, at any time from and after the date of this Agreement, directly or indirectly, disclose or use any confidential or proprietary information involving or relating to (x) the Company, including any information contained in the books and records of the Company and (y) the Company's Subsidiaries, including any information contained in the books and records of any such Subsidiaries; *provided, however*, that disclosure and use of any information shall be permitted (i) with the prior written consent of the Company, (ii) as, and to the extent, expressly permitted by this Agreement, any Offsetting Management Services Agreement, any Transaction Services Agreement or any other agreement between the Manager and the Company or any of the Company's Subsidiaries (but only to the extent that such information relates to such Subsidiaries), (iii) as, and solely to the extent, necessary or required for the performance by the Manager, any of its Affiliates or its delegates of any of their respective obligations under this Agreement, (iv) as, and to the extent, necessary or required in the operation of the Company's business or operations in the Ordinary Course of Business, (v) to the extent such information is generally available to, or known by, the public or otherwise has entered the public domain (other than as a result of disclosure in violation of this Section 13.17 by the Manager or any of its Affiliates), (vi) as, and to the extent, necessary or required by any governmental order, applicable law or any governmental authority, subject to Section 13.17(d), and (vii) as, and to the extent, necessary or required or reasonably appropriate in connection with the enforcement of any right or remedy relating to this Agreement, any Offsetting Management Services Agreement, any Transaction Services Agreement or any other agreement between the Manager and the Company or any of the Company's Subsidiaries.

(b) The Manager shall produce and implement policies and procedures that are reasonably designed to ensure compliance by the Manager's directors, officers, employees, agents and representatives with the requirements of this Section 13.17.

(c) For the avoidance of doubt, confidential information includes business plans, financial information, operational information, strategic information, legal strategies or legal analysis, formulas, production processes, lists, names, research, marketing, sales information and any other information similar to any of the foregoing or serving a purpose similar to any of the foregoing with respect to the business or operations of the Company or any of its Subsidiaries. However, the Parties are not required to mark or otherwise designate information as "confidential or proprietary information," "confidential" or "proprietary" in order to receive the benefits of this Section 13.17.

(d) In the event that the Manager is required by governmental order, applicable law or any governmental authority to disclose any confidential information of the Company or any of its Subsidiaries that is subject to the restrictions of this Section 13.17, the Manager shall (i) notify the Company or any of its Subsidiaries in writing as soon as possible, unless it is otherwise affirmatively prohibited by such governmental order, applicable law or such governmental authority from notifying the Company or any such Subsidiaries, as the case may be, (ii) cooperate with the Company or any such Subsidiaries to preserve the confidentiality of such confidential information consistent with the requirements of such governmental order, applicable law or such governmental authority and (iii) use its reasonable best efforts to limit any such disclosure to the minimum disclosure necessary or required to comply with such governmental order, applicable law or such governmental authority, in each case, at the cost and expense of the Company.

(e) Nothing in this Section 13.17 shall prohibit the Manager from keeping or maintaining any copies of any records, documents or other information that may contain information that is otherwise subject to the requirements of this Section 13.17, subject to its compliance with this Section 13.17.

(f) The Manager shall be responsible for any breach or violation of the requirements of this Section 13.17 by any of its agents or representatives.

**Section 13.18 Counterparts**

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

**IN WITNESS WHEREOF**, the Parties have executed this amended Agreement as of November 8, 2006,

COMPASS GROUP MANAGEMENT LLC

By: : /s/ I. Joseph Massoud

Name: I. Joseph Massoud

Title: Managing Member

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

By: /s/ James J. Bottiglieri

Name: James J. Bottiglieri

Title: Chief Financial Officer



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

I, I. Joseph Massoud, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Compass Group Diversified Holdings LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

/s/ I. Joseph Massoud

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I. Joseph Massoud  
*Chief Executive Officer of*  
*Compass Group Diversified Holdings LLC*  
(Principal executive officer)

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

I, James J. Bottiglieri, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Compass Diversified Trust and Compass Group Diversified Holdings LLC (each, the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

/s/ James J. Bottiglieri

James J. Bottiglieri

*Regular Trustee of Compass Diversified Trust and*

*Chief Financial Officer of*

*Compass Group Diversified Holdings LLC*

(Principal financial and accounting officer)

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

In connection with the Quarterly Report of COMPASS GROUP DIVERSIFIED HOLDINGS LLC on Form 10-Q for the period ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, I. Joseph Massoud, Chief Executive Officer of Compass Group Diversified Holdings LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: November 9, 2006

/s/ I. Joseph Massoud  
\_\_\_\_\_  
I. Joseph Massoud  
Chief Executive Officer of  
Compass Group Diversified Holdings LLC

The foregoing certification is being furnished to accompany Compass Group Diversified Holdings LLC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 (the "Report") solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of Compass Group Diversified Holdings LLC that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to Compass Group Diversified Holdings LLC and will be retained by Compass Group Diversified Holdings LLC and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of COMPASS DIVERSIFIED TRUST and COMPASS GROUP DIVERSIFIED HOLDINGS LLC on Form 10-Q for the period ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James J. Bottiglieri, Regular Trustee of Compass Diversified Trust and Chief Financial Officer of Compass Group Diversified Holdings LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: November 9, 2006

/s/ James J. Bottiglieri

James J. Bottiglieri  
Regular Trustee of Compass Diversified Trust  
and Chief Financial Officer of  
Compass Group Diversified Holdings LLC

The foregoing certification is being furnished to accompany Compass Diversified Trust's and Compass Group Diversified Holdings LLC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 (the "Report") solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of Compass Diversified Trust and Compass Group Diversified Holdings that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to Compass Diversified Trust and Compass Group Diversified Holdings LLC and will be retained by Compass Diversified Trust and Compass Group Diversified Holdings LLC and furnished to the Securities and Exchange Commission or its staff upon request.