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

## Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended March 31, 2020**
**Or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from __________ to __________**

## COMPASS DIVERSIFIED HOLDINGS
**(Exact name of registrant as specified in its charter)**

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

## COMPASS GROUP DIVERSIFIED HOLDINGS LLC
**(Exact name of registrant as specified in its charter)**

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

**301 Riverside Avenue, Second Floor, Westport, CT 06880**
**(203) 221-1703**
**(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)**

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

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

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

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

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

| | | | | | |
|---|---|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ☐ | Non-accelerated filer | ☐ |
| Smaller reporting company | ☐ | Emerging growth company | ☐ | | |

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

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

As of April 28, 2020, there were 59,900,000 Trust common shares of Compass Diversified Holdings outstanding.

## COMPASS DIVERSIFIED HOLDINGS

**QUARTERLY REPORT ON FORM 10-Q**
**For the period ended March 31, 2020**

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## NOTE TO READER

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

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

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, contains both historical and forward-looking statements. We may, in some cases, use words such as "project," "predict," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "potentially," "may," or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward looking statements include statements about our expectations for adjusted EBITDA in the second quarter and the sufficiency of our capital resources. 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:

- the adverse impact on the U.S. and global economy, including the markets in which we operate, of the novel coronavirus, which causes the Coronavirus disease 2019 (COVID-19) global pandemic, and the impact in the near, medium and long-term on our business, results of operations, financial position, liquidity or cash flows;
- our ability to successfully operate our businesses on a combined basis, and to effectively integrate and improve future acquisitions;
- our ability to remove CGM and CGM’s right to resign;
- our organizational structure, which may limit our ability to meet our dividend and distribution policy;
- our ability to service and comply with the terms of our indebtedness;
- our cash flow available for distribution and reinvestment and our ability to make distributions in the future to our shareholders;
- our ability to pay the management fee and profit allocation if and when due;
- our ability to make and finance future acquisitions;
- our ability to implement our acquisition and management strategies;
- the regulatory environment in which our businesses operate;
- trends in the industries in which our businesses operate;
- changes in general economic or business conditions or economic or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;
- environmental risks affecting the business or operations of our businesses;
- our and CGM’s ability to retain or replace qualified employees of our businesses and CGM;
- costs and effects of legal and administrative proceedings, settlements, investigations and claims; and
- extraordinary or force majeure events affecting the business or operations of our businesses.

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

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

**PART I**
**FINANCIAL INFORMATION**

## ITEM 1. FINANCIAL STATEMENTS

**COMPASS DIVERSIFIED HOLDINGS**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| *(in thousands)* | March 31, 2020 (Unaudited) | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 291,013 | $ 100,314 |
| Accounts receivable, net | 184,103 | 191,405 |
| Inventories | 305,636 | 317,306 |
| Prepaid expenses and other current assets | 33,711 | 35,247 |
| Total current assets | 814,463 | 644,272 |
| Property, plant and equipment, net | 143,799 | 146,428 |
| Goodwill | 438,519 | 438,519 |
| Intangible assets, net | 548,730 | 561,946 |
| Other non-current assets | 99,986 | 100,727 |
| **Total assets** | $ 2,045,497 | $ 1,891,892 |
| | | |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 63,069 | $ 70,089 |
| Accrued expenses | 102,743 | 108,768 |
| Due to related party | 7,973 | 8,049 |
| Other current liabilities | 21,795 | 22,573 |
| Total current liabilities | 195,580 | 209,479 |
| Deferred income taxes | 31,726 | 33,039 |
| Long-term debt | 594,664 | 394,445 |
| Other non-current liabilities | 88,444 | 89,054 |
| **Total liabilities** | 910,414 | 726,017 |
| | | |
| Commitments and contingencies | | |
| | | |
| **Stockholders' equity** | | |
| Trust preferred shares, 50,000 authorized; 12,600 shares issued and outstanding at March 31, 2020 and December 31, 2019 | | |
| Series A preferred shares, no par value; 4,000 shares issued and outstanding at March 31, 2020 and December 31, 2019 | 96,417 | 96,417 |
| Series B preferred shares, no par value; 4,000 shares issued and outstanding at March 31, 2020 and December 31, 2019 | 96,504 | 96,504 |
| Series C preferred shares, no par value; 4,600 shares issued and outstanding at March 31, 2020 and December 31, 2019 | 110,997 | 110,997 |
| Trust common shares, no par value, 500,000 authorized; 59,900 shares issued and outstanding at March 31, 2020 and December 31, 2019 | 924,680 | 924,680 |
| Accumulated other comprehensive loss | (5,457) | (3,933) |
| Accumulated deficit | (141,866) | (109,338) |
| Total stockholders' equity attributable to Holdings | 1,081,275 | 1,115,327 |
| Noncontrolling interest | 53,808 | 50,548 |
| Total stockholders' equity | 1,135,083 | 1,165,875 |
| **Total liabilities and stockholders' equity** | $ 2,045,497 | $ 1,891,892 |

See notes to condensed consolidated financial statements.

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

| | Three months ended March 31, | |
|---|---|---|
| *(in thousands, except per share data)* | **2020** | **2019** |
| Net revenues | $ 333,449 | $ 338,857 |
| Cost of revenues | 213,961 | 219,302 |
| **Gross profit** | 119,488 | 119,555 |
| Operating expenses: | | |
| Selling, general and administrative expense | 83,800 | 81,397 |
| Management fees | 8,620 | 10,957 |
| Amortization expense | 13,505 | 13,590 |
| **Operating income** | 13,563 | 13,611 |
| Other income (expense): | | |
| Interest expense, net | (8,597) | (18,454) |
| Loss on sale of securities (refer to Note B) | — | (5,300) |
| Amortization of debt issuance costs | (525) | (927) |
| Other income (expense), net | 661 | (434) |
| **Income (loss) from continuing operations before income taxes** | 5,102 | (11,504) |
| Provision for income taxes | 222 | 1,424 |
| **Income (loss) from continuing operations** | 4,880 | (12,928) |
| Income from discontinued operations, net of income tax | — | 1,427 |
| Gain on sale of discontinued operations | — | 121,659 |
| **Net income** | 4,880 | 110,158 |
| Less: Net income from continuing operations attributable to noncontrolling interest | 1,215 | 1,368 |
| Less: Net loss from discontinued operations attributable to noncontrolling interest | — | (518) |
| **Net income attributable to Holdings** | $ 3,665 | $ 109,308 |
| | | |
| **Amounts attributable to Holdings** | | |
| Income (loss) from continuing operations | $ 3,665 | $ (14,296) |
| Income from discontinued operations, net of income tax | — | 1,945 |
| Gain on sale of discontinued operations, net of income tax | — | 121,659 |
| Net income attributable to Holdings | $ 3,665 | $ 109,308 |
| | | |
| **Basic income (loss) per common share attributable to Holdings (refer to Note I)** | | |
| Continuing operations | $ (0.26) | $ (0.34) |
| Discontinued operations | — | 2.06 |
| | $ (0.26) | $ 1.72 |
| | | |
| Basic weighted average number of shares of common shares outstanding | 59,900 | 59,900 |
| | | |
| Cash distributions declared per Trust common share (refer to Note I) | $ 0.36 | $ 0.36 |

See notes to condensed consolidated financial statements.

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

| *(in thousands)* | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|---|---|---|
| **Net income** | $ 4,880 | $ 110,158 |
| Other comprehensive income (loss) | | |
| Foreign currency translation adjustments | (2,118) | 577 |
| Foreign currency amounts reclassified from accumulated other comprehensive income (loss) that increase net income: | | |
| Disposition of Manitoba Harvest | — | 4,791 |
| Pension benefit liability, net | 594 | (109) |
| Other comprehensive income (loss) | (1,524) | 5,259 |
| Total comprehensive income, net of tax | 3,356 | 115,417 |
| Less: Net income attributable to noncontrolling interests | 1,215 | 850 |
| Less: Other comprehensive income (loss) attributable to noncontrolling interests | (17) | 2 |
| **Total comprehensive income attributable to Holdings, net of tax** | $ 2,158 | $ 114,565 |

See notes to condensed consolidated financial statements.

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

| *(in thousands)* | Trust Preferred Shares | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Series A | Series B | Series C | Trust Common Shares | Accumulated Deficit | Accumulated Other Comprehensive Loss | Stockholders' Equity Attributable to Holdings | Non-Controlling Interest | Non-Controlling Interest Attributable to Disc. Ops. | Total Stockholders' Equity |
| **Balance — January 1, 2019** | $96,417 | $96,504 | $ — | $924,680 | $ (249,453) | $ (8,776) | $ 859,372 | $ 39,922 | $ 20,048 | $ 919,342 |
| Net income (loss) | — | — | — | — | 109,308 | — | 109,308 | 1,368 | (518) | 110,158 |
| Total comprehensive income, net | — | — | — | — | — | 5,259 | 5,259 | — | — | 5,259 |
| Option activity attributable to noncontrolling shareholders | — | — | — | — | — | — | — | 1,728 | 477 | 2,205 |
| Purchase of noncontrolling interest | — | — | — | — | — | — | — | (39) | — | (39) |
| Disposition of Manitoba Harvest | — | — | — | — | — | — | — | — | (10,799) | (10,799) |
| Distributions paid - Trust Common Shares | — | — | — | — | (21,564) | — | (21,564) | — | — | (21,564) |
| Distributions paid - Trust Preferred Shares | — | — | — | — | (3,781) | — | (3,781) | — | — | (3,781) |
| **Balance — March 31, 2019** | $96,417 | $96,504 | $ — | $924,680 | $ (165,490) | $ (3,517) | $ 948,594 | $ 42,979 | $ 9,208 | $ 1,000,781 |
| | | | | | | | | | | |
| **Balance — January 1, 2020** | $96,417 | $96,504 | $110,997 | $924,680 | $ (109,338) | $ (3,933) | $ 1,115,327 | $ 50,548 | $ — | $ 1,165,875 |
| Net income | — | — | — | — | 3,665 | — | 3,665 | 1,215 | — | 4,880 |
| Total comprehensive loss, net | — | — | — | — | — | (1,524) | (1,524) | — | — | (1,524) |
| Option activity attributable to noncontrolling shareholders | — | — | — | — | — | — | — | 2,055 | — | 2,055 |
| Effect of subsidiary stock option exercise | — | — | — | — | — | — | — | 73 | — | 73 |
| Purchase of noncontrolling interest | — | — | — | — | — | — | — | (83) | — | (83) |
| Distributions paid - Allocation Interests | — | — | — | — | (9,087) | — | (9,087) | — | — | (9,087) |
| Distributions paid - Trust Common Shares | — | — | — | — | (21,564) | — | (21,564) | — | — | (21,564) |
| Distributions paid - Trust Preferred Shares | — | — | — | — | (5,542) | — | (5,542) | — | — | (5,542) |
| **Balance — March 31, 2020** | $96,417 | $96,504 | $110,997 | $924,680 | $ (141,866) | $ (5,457) | $ 1,081,275 | $ 53,808 | $ — | $ 1,135,083 |

See notes to condensed consolidated financial statements.

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

| *(in thousands)* | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 4,880 | $ 110,158 |
| Income from discontinued operations, net of income tax | — | 1,427 |
| Gain on sale of discontinued operations | — | 121,659 |
| Income (loss) from continuing operations | 4,880 | (12,928) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 8,301 | 7,996 |
| Amortization expense | 13,505 | 13,590 |
| Amortization of debt issuance costs and original issue discount | 525 | 1,079 |
| Unrealized loss on interest rate swap | — | 1,099 |
| Noncontrolling stockholder stock based compensation | 2,055 | 1,728 |
| Provision for loss on receivables | 883 | 791 |
| Deferred taxes | (2,692) | (2,031) |
| Other | (515) | 256 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 6,695 | (801) |
| Inventories | 11,773 | (6,624) |
| Other current and non-current assets | (999) | (1,370) |
| Accounts payable and accrued expenses | (10,425) | (10,145) |
| Cash provided by (used in) operating activities - continuing operations | 33,986 | (7,360) |
| Cash used in operating activities - discontinued operations | — | (1,576) |
| Cash provided by (used in) operating activities | 33,986 | (8,936) |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (6,603) | (5,426) |
| Payment of interest rate swap | — | (94) |
| Proceeds from sale of businesses | — | 124,210 |
| Other investing activities | (43) | 1,802 |
| Cash (used in) provided by investing activities - continuing operations | (6,646) | 120,492 |
| Cash provided by investing activities - discontinued operations | — | 48,452 |
| Cash (used in) provided by investing activities | (6,646) | 168,944 |

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

| *(in thousands)* | Three months ended March 31, 2020 | 2019 |
|---|---|---|
| **Cash flows from financing activities:** | | |
| Borrowings under credit facility | 200,000 | 49,000 |
| Repayments under credit facility | — | (193,250) |
| Distributions paid - common shares | (21,564) | (21,564) |
| Distributions paid - preferred shares | (5,542) | (3,781) |
| Distributions paid - allocation interests | (9,087) | — |
| Net proceeds provided by noncontrolling shareholders | 73 | — |
| Purchase of noncontrolling interest | (83) | (39) |
| Other | 588 | (2,814) |
| Net cash provided (used in) by financing activities | 164,385 | (172,448) |
| Foreign currency impact on cash | (1,026) | (1,049) |
| Net increase (decrease) in cash and cash equivalents | 190,699 | (13,489) |
| Cash and cash equivalents — beginning of period [1] | 100,314 | 53,326 |
| Cash and cash equivalents — end of period | $ 291,013 | $ 39,837 |

[1] Includes cash from discontinued operations of $4.6 million at January 1, 2019.

See notes to condensed consolidated financial statements.

### Note A - Presentation and Principles of Consolidation

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

The Company is a controlling owner of eight businesses, or reportable operating segments, at March 31, 2020. The segments are as follows: 5.11 Acquisition Corp. ("5.11"), Velocity Outdoor, Inc. (formerly Crosman Corp.) ("Velocity Outdoor" or "Velocity"), The Ergo Baby Carrier, Inc. ("Ergobaby"), Liberty Safe and Security Products, Inc. ("Liberty Safe" or "Liberty"), Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits"), AMT Acquisition Corporation ("Arnold"), FFI Compass, Inc. ("Foam Fabricators" or "Foam") and The Sterno Group, LLC ("Sterno"). Refer to Note D - "Operating Segment Data" for further discussion of the operating segments. Compass Group Management LLC, a Delaware limited liability company ("CGM" or the "Manager"), manages the day to day operations of the Company and oversees the management and operations of our businesses pursuant to a Management Services Agreement ("MSA").

*Basis of Presentation*

The condensed consolidated financial statements for the three month periods ended March 31, 2020 and March 31, 2019 are unaudited, and in the opinion of management, contain all adjustments necessary for a fair presentation of the condensed consolidated financial statements. Such adjustments consist solely of normal recurring items. Interim results are not necessarily indicative of results for a full year or any subsequent interim period. The condensed consolidated financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP") and presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of the Company. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

*Consolidation*

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

*Discontinued Operations*

During the first quarter of 2019, the Company completed the sale of FHF Holdings Ltd. ("Manitoba Harvest"), the parent company of Fresh Hemp Foods Ltd. Additionally, during the second quarter of 2019, the Company completed the sale of CEHI Acquisition Corp. ("Clean Earth"), the parent company of Clean Earth Holdings, Inc. and Clean Earth Inc. The results of operations of Manitoba Harvest and Clean Earth are reported as discontinued operations in the condensed consolidated statements of operations for the three months ended March 31, 2019. Refer to Note B - "Discontinued Operations" for additional information. Unless otherwise indicated, the disclosures accompanying the condensed consolidated financial statements reflect the Company's continuing operations.

*Seasonality*

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

*Recently Adopted Accounting Pronouncements*

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, Financial Instruments—Credit Losses, which requires companies to present assets held at amortized cost and available for sale debt securities

net of the amount expected to be collected. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectibility. The guidance was effective for fiscal years and interim periods beginning after December 15, 2019, with early adoption permitted. The adoption of this guidance on January 1, 2020 did not have a material impact on our consolidated financial statements.

*Recently Issued Accounting Pronouncements*

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This guidance removes certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2021 and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

**Note B — Discontinued Operations**

***Sale of Clean Earth***

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

On June 28, 2019, Buyer completed the acquisition of all of the issued and outstanding securities of CEHI pursuant to the Purchase Agreement. The sale price for Clean Earth was based on an aggregate total enterprise value of $625 million and is subject to customary working capital adjustments. After the allocation of the sale proceeds to Clean Earth non-controlling equity holders, the repayment of intercompany loans to the Company (including accrued interest) of $224.6 million, and the payment of transaction expenses of approximately $10.7 million, the Company received approximately $327.3 million of total proceeds at closing related to our equity interests in Clean Earth. The Company recognized a gain on the sale of Clean Earth of $209.3 million during the year ended December 31, 2019.

Summarized results of operations of Clean Earth for the three months ended March 31, 2019 are as follows (in thousands):

| | | Three months ended March 31, 2019 |
|---|---|---|
| Net sales | $ | 63,632 |
| Gross profit | | 16,633 |
| Operating income | | 1,256 |
| Income from continuing operations before income taxes | | 991 |
| Benefit for income taxes | | (1,022) |
| Income from discontinued operations [1] | $ | 2,013 |

[1] The results of operations for the three months ended March 31, 2019, excludes $4.7 million of intercompany interest expense.

***Sale of Manitoba Harvest***

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

to the Common Holders on the date that was six months after the closing date of the arrangement (the “Deferred Consideration”). The sale consideration also included a potential earnout of up to C$49 million in Tilray Common Stock to the Common Holders, if Manitoba Harvest achieved certain levels of U.S. branded gross sales of edible or topical products containing broad spectrum hemp extracts or cannabidiols prior to December 31, 2019. The threshold for the earnout was not achieved and no additional amount was recorded related to sale of Manitoba Harvest at December 31, 2019.

The cash portion of the Closing Date Consideration was reduced by the amount of the net indebtedness (including accrued interest) of Manitoba Harvest on the closing date of C$71.3 million ($53.7 million) and transaction expenses of approximately C$5.0 million. The Company's share of the net proceeds after accounting for the redemption of the noncontrolling shareholders and the payment of net indebtedness of Manitoba Harvest and transaction expenses was approximately $124.2 million in cash proceeds and in Tilray Common Stock. The Company recognized a gain on the sale of Manitoba Harvest of $121.7 million in the first quarter of 2019. In August 2019, the Company received the Deferred Consideration related to the sale. The Company's portion of the Deferred Consideration totaled $28.4 million in cash proceeds and $19.6 million in Tilray Common Stock.

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

Summarized results of operations of Manitoba Harvest for the period from January 1, 2019 through the date of disposition are as follows (in thousands):

| | | For the period January 1, 2019 through disposition |
|---|---|---|
| Net revenues | $ | 10,024 |
| Gross profit | | 4,874 |
| Operating loss | | (1,118) |
| Loss before income taxes | | (1,127) |
| Benefit for income taxes | | (541) |
| Income (loss) from discontinued operations [(1)] | $ | (586) |

[(1)] The results of operations for the period from January 1, 2019 through the date of disposition excludes $1.0 million of intercompany interest expense.

## Note C — Revenue

The Company recognizes revenue in accordance with the provisions of Revenue from Contracts with Customers, or ASC 606. Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, and excludes any sales incentives or taxes collected from customers which are subsequently remitted to government authorities.

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

The following tables provide disaggregation of revenue by reportable segment geography for the three months ended March 31, 2020 and 2019 (in thousands):

| | Three months ended March 31, 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 5.11 | Ergo | Liberty | Velocity | ACI | Arnold | Foam | Sterno | Total |
| United States | $ 72,427 | $ 6,258 | $ 24,657 | $ 25,879 | $ 21,696 | $ 18,563 | $ 23,587 | $ 80,016 | $ 273,083 |
| Canada | 1,474 | 700 | 303 | 1,920 | — | 156 | — | 2,927 | 7,480 |
| Europe | 6,307 | 5,787 | — | 1,698 | — | 8,328 | — | 58 | 22,178 |
| Asia Pacific | 3,511 | 5,903 | — | 246 | — | 1,395 | — | 28 | 11,083 |
| Other international | 12,062 | 1,001 | — | 647 | — | 1,116 | 4,796 | 3 | 19,625 |
| | $ 95,781 | $ 19,649 | $ 24,960 | $ 30,390 | $ 21,696 | $ 29,558 | $ 28,383 | $ 83,032 | $ 333,449 |

| | Three months ended March 31, 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 5.11 | Ergo | Liberty | Velocity | ACI | Arnold | Foam | Sterno | Total |
| United States | $ 70,477 | $ 7,335 | $ 21,736 | $ 26,164 | $ 23,069 | $ 17,916 | $ 26,137 | $ 85,134 | $ 277,968 |
| Canada | 1,664 | 819 | 468 | 1,477 | — | 179 | — | 5,032 | 9,639 |
| Europe | 7,282 | 6,531 | — | 2,201 | — | 9,770 | — | 683 | 26,467 |
| Asia Pacific | 3,414 | 7,306 | — | 229 | — | 1,260 | — | 290 | 12,499 |
| Other international | 5,252 | 461 | — | 1,066 | — | 903 | 4,545 | 57 | 12,284 |
| | $ 88,089 | $ 22,452 | $ 22,204 | $ 31,137 | $ 23,069 | $ 30,028 | $ 30,682 | $ 91,196 | $ 338,857 |

**Note D — Operating Segment Data**

At March 31, 2020, the Company had eight reportable operating segments. Each operating segment represents a platform acquisition. The Company's operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. A description of each of the reportable segments and the types of products and services from which each segment derives its revenues is as follows:

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

- Ergobaby is a designer, marketer and distributor of wearable baby carriers and accessories, blankets and swaddlers, nursing pillows, strollers and related products. Ergobaby primarily sells its Ergobaby and Baby Tula branded products through brick-and-mortar retailers, national chain stores, online retailers, its own websites and distributors and derives more than 50% of its sales from outside of the United States. Ergobaby is headquartered in Los Angeles, California.

- Liberty Safe is a designer, manufacturer and marketer of premium home, gun and office safes in North America. From its over 300,000 square foot manufacturing facility, Liberty produces a wide range of home and gun safe models in a broad assortment of sizes, features and styles. Liberty is headquartered in Payson, Utah.

- Velocity Outdoor is a leading designer, manufacturer, and marketer of airguns, archery products, laser aiming devices and related accessories. Velocity Outdoor offers its products under the highly recognizable Crosman, Benjamin, Ravin, LaserMax and CenterPoint brands that are available through national retail chains, mass merchants, dealer and distributor networks. Velocity Outdoor is headquartered in Bloomfield, New York.

- Advanced Circuits is an electronic components manufacturing company that provides small-run, quick-turn and volume production rigid printed circuit boards. ACI manufactures and delivers custom printed circuit boards to customers primarily in North America. ACI is headquartered in Aurora, Colorado.
- Arnold is a global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets, including aerospace and defense, general industrial, motorsport/automotive, oil and gas, medical, energy, reprographics and advertising specialties. Arnold produces high performance permanent magnets (PMAG), precision foil products (Precision Thin Metals or "PTM"), and flexible magnets (Flexmag™) that are mission critical in motors, generators, sensors and other systems and components. Based on its long-term relationships, Arnold has built a diverse and blue-chip customer base totaling more than 2,000 clients worldwide. Arnold is headquartered in Rochester, New York.
- Foam Fabricators is a designer and manufacturer of custom molded protective foam solutions and original equipment manufacturer components made from expanded polystyrene and expanded polypropylene. Foam Fabricators provides products to a variety of end markets, including appliances and electronics, pharmaceuticals, health and wellness, automotive, building and other products. Foam Fabricators is headquartered in Scottsdale, Arizona and operates 13 molding and fabricating facilities across North America.
- Sterno is a manufacturer and marketer of portable food warming fuel and creative table lighting solutions for the food service industry and flameless candles, outdoor lighting products, scented wax cubes and warmer products for consumers. Sterno's products include wick and gel chafing fuels, butane stoves and accessories, liquid and traditional wax candles, scented wax cubes and warmer products used for home decor and fragrance systems, catering equipment and outdoor lighting products. Sterno is headquartered in Corona, California.

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

**Summary of Operating Segments**

| **Net Revenues** | **Three months ended March 31,** | |
|---|---|---|
| *(in thousands)* | **2020** | **2019** |
| 5.11 | $ 95,781 | $ 88,089 |
| Ergobaby | 19,649 | 22,452 |
| Liberty | 24,960 | 22,204 |
| Velocity Outdoor | 30,390 | 31,137 |
| ACI | 21,696 | 23,069 |
| Arnold | 29,558 | 30,028 |
| Foam Fabricators | 28,383 | 30,682 |
| Sterno | 83,032 | 91,196 |
| Total segment revenue | 333,449 | 338,857 |
| Corporate and other | — | — |
| Total consolidated revenues | $ 333,449 | $ 338,857 |

| **Segment profit (loss)** (1) | Three months ended March 31, | |
|---|---|---|
| *(in thousands)* | **2020** | **2019** |
| 5.11 | $ 4,586 | $ 2,338 |
| Ergobaby | 1,554 | 3,136 |
| Liberty | 3,145 | 1,415 |
| Velocity Outdoor | (1,164) | 341 |
| ACI | 5,738 | 6,481 |
| Arnold | 1,653 | 1,477 |
| Foam Fabricators | 3,512 | 3,506 |
| Sterno | 5,269 | 7,982 |
| Total | 24,293 | 26,676 |
| **Reconciliation of segment profit (loss) to consolidated income (loss) before income taxes:** | | |
| Interest expense, net | (8,597) | (18,454) |
| Other income (expense), net | 661 | (434) |
| Corporate and other [2] | (11,255) | (19,292) |
| Total consolidated income (loss) before income taxes | $ 5,102 | $ (11,504) |

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

[2] Primarily relates to management fees expensed and payable to CGM, and corporate overhead expenses.

| **Depreciation and Amortization Expense** | Three months ended March 31, | |
|---|---|---|
| *(in thousands)* | **2020** | **2019** |
| 5.11 | $ 5,152 | $ 5,157 |
| Ergobaby | 2,053 | 2,111 |
| Liberty | 406 | 407 |
| Velocity Outdoor | 3,247 | 3,251 |
| ACI | 646 | 669 |
| Arnold | 1,631 | 1,622 |
| Foam Fabricators | 3,047 | 2,997 |
| Sterno | 5,624 | 5,372 |
| Total | 21,806 | 21,586 |
| **Reconciliation of segment to consolidated total:** | | |
| Amortization of debt issuance costs and original issue discount | 525 | 1,079 |
| Consolidated total | $ 22,331 | $ 22,665 |

| (in thousands) | Accounts Receivable<br>March 31, 2020 | Accounts Receivable<br>December 31, 2019 | Identifiable Assets<br>March 31, 2020 (1) | Identifiable Assets<br>December 31, 2019 (1) |
|---|---|---|---|---|
| 5.11 | $ 50,869 | $ 49,543 | $ 356,614 | $ 357,292 |
| Ergobaby | 9,573 | 10,460 | 90,969 | 91,798 |
| Liberty | 14,616 | 13,574 | 35,600 | 38,558 |
| Velocity Outdoor | 21,959 | 20,290 | 186,533 | 192,288 |
| ACI | 7,969 | 8,318 | 27,617 | 24,408 |
| Arnold | 19,800 | 19,043 | 72,109 | 72,650 |
| Foam Fabricators | 24,290 | 24,455 | 154,206 | 156,914 |
| Sterno | 49,134 | 60,522 | 251,830 | 263,530 |
| Allowance for doubtful accounts | (14,107) | (14,800) | — | — |
| Total | 184,103 | 191,405 | 1,175,478 | 1,197,438 |
| **Reconciliation of segment to consolidated total:** | | | | |
| Corporate and other identifiable assets | — | — | 247,397 | 64,531 |
| Assets of discontinued operations | — | — | — | — |
| Total | $ 184,103 | $ 191,405 | $ 1,422,875 | $ 1,261,969 |

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

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

*Property, plant and equipment*

Property, plant and equipment is comprised of the following at March 31, 2020 and December 31, 2019 (in thousands):

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Machinery and equipment | $ 193,916 | $ 191,897 |
| Furniture, fixtures and other | 34,810 | 36,604 |
| Leasehold improvements | 41,311 | 40,851 |
| Buildings and land | 10,005 | 10,559 |
| Construction in process | 11,002 | 7,992 |
| | 291,044 | 287,903 |
| Less: accumulated depreciation | (147,245) | (141,475) |
| Total | $ 143,799 | $ 146,428 |

Depreciation expense was $8.3 million and $8.0 million for the three months ended March 31, 2020 and March 31, 2019, respectively.

*Inventory*

Inventory is comprised of the following at March 31, 2020 and December 31, 2019 *(in thousands)*:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Raw materials | $ 60,223 | $ 59,888 |
| Work-in-process | 14,950 | 14,318 |
| Finished goods | 249,707 | 262,352 |
| Less: obsolescence reserve | (19,244) | (19,252) |
| Total | $ 305,636 | $ 317,306 |

**Note F — Goodwill and Other Intangible Assets**

As a result of acquisitions of various businesses, the Company has significant intangible assets on its balance sheet that include goodwill and indefinite-lived intangibles. The Company's goodwill and indefinite-lived intangibles are tested and reviewed for impairment annually as of March 31st or more frequently if facts and circumstances warrant by comparing the fair value of each reporting unit to its carrying value. Each of the Company's businesses represent a reporting unit.

***Goodwill***

*2020 Annual Impairment Testing*

The Company uses a qualitative approach to test goodwill for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform quantitative goodwill impairment testing. We determined that the Ergobaby, Foam Fabricators and Velocity reporting units required additional quantitative testing because we could not conclude that the fair value of the reporting unit exceeded its carrying value based on qualitative factors alone. For the reporting units that were tested qualitatively for the 2020 annual impairment testing, the results of the qualitative analysis indicated that it is more likely than not that the fair value exceeded the carrying value of these reporting units.

The quantitative tests of Ergobaby, Foam Fabricators and Velocity were performed using an income approach to determine the fair value of the reporting units. For Ergobaby, the discount rate used in the income approach was 15.9% and the results of the quantitative impairment testing indicated that the fair value of the Ergobaby reporting unit exceeded the carrying value by 14.0%. For Foam Fabricators, the discount rate used in the income approach was 13.3%, and the results of the quantitative impairment testing indicated that the fair value of the Foam Fabricators reporting unit exceeded the carrying value by 3.8%. For Velocity, the discount rate used in the income approach was 12.8%, and the results of the quantitative impairment testing indicated that the fair value of the Velocity reporting unit exceeded the carrying value by 16.4%.

*2019 Interim Impairment Testing*

*Velocity Outdoor*

The Company performed interim quantitative impairment testing of Velocity Outdoor at September 30, 2019. As a result of operating results below forecasts in the current period as well as a re-forecast of the Velocity business in which planned earnings and revenue fell below the forecasts of prior periods, the Company determined that a triggering event occurred in the third quarter of 2019. The Company used an income approach for the impairment test, whereby we estimate the fair value of the reporting unit based on the present value of future cash flows. Cash flow projections are based on management's estimate of revenue growth rates and operating margins, and take into consideration industry and market conditions as well as company specific economic factors. The Company used a weighted average cost of capital of 12.2% in the income approach. The discount rate used was based on the weighted average cost of capital adjusted for the relevant risk associated with business specific characteristics and Velocity's ability to execute on the projected cash flows. Based on the results of the impairment test, the fair value of Velocity did not exceed the carrying value, indicating that the goodwill at Velocity was impaired. The difference between the carrying value and fair value of the Velocity business was $32.9 million, which the Company recorded as impairment expense in the consolidated statement of operations for the year ended December 31, 2019.

*2019 Annual Impairment Testing*

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

A summary of the net carrying value of goodwill at March 31, 2020 and December 31, 2019, is as follows *(in thousands)*:

| | Three months ended March 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Goodwill - gross carrying amount | $ 496,264 | $ 496,264 |
| Accumulated impairment losses | (57,745) | (57,745) |
| Goodwill - net carrying amount | $ 438,519 | $ 438,519 |

The following is a reconciliation of the change in the carrying value of goodwill for the three months ended March 31, 2020 by operating segment *(in thousands)*:

| | Balance at January 1, 2020 | Acquisitions | Goodwill Impairment | Other | Balance at March 31, 2020 |
|---|---|---|---|---|---|
| 5.11 | $ 92,966 | $ — | $ — | $ — | $ 92,966 |
| Ergobaby | 61,031 | — | — | — | 61,031 |
| Liberty | 32,828 | — | — | — | 32,828 |
| Velocity Outdoor | 30,079 | — | — | — | 30,079 |
| ACI | 58,019 | — | — | — | 58,019 |
| Arnold | 26,903 | — | — | — | 26,903 |
| Foam Fabricators | 72,708 | — | — | — | 72,708 |
| Sterno | 55,336 | — | — | — | 55,336 |
| Corporate [(1)] | 8,649 | — | — | — | 8,649 |
| Total | $ 438,519 | $ — | $ — | $ — | $ 438,519 |

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

***Long lived assets***

*Annual indefinite lived impairment testing*

The Company used a qualitative approach to test indefinite lived intangible assets for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of an indefinite lived intangible asset is impaired as a basis for determining whether it is necessary to perform quantitative impairment testing. The Company evaluated the qualitative factors of each indefinite lived intangible asset in connection with the annual impairment testing for 2020 and 2019. Results of the qualitative analysis indicate that it is more likely than not that the fair value of the reporting units that maintain indefinite lived intangible assets exceeded the carrying value. The Ergobaby and Liberty reporting units have indefinite lived trade names that were tested in conjunction with the goodwill impairment tests at March 31, 2020 and March 31, 2019, respectively. The results of the quantitative impairment testing indicated that the trade names were not impaired.

Other intangible assets are comprised of the following at March 31, 2020 and December 31, 2019 *(in thousands)*:

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | $ 462,686 | $ (163,796) | $ 298,890 | $ 462,686 | $ (155,200) | $ 307,486 |
| Technology and patents | 80,370 | (30,076) | 50,294 | 80,082 | (28,748) | 51,334 |
| Trade names, subject to amortization | 189,183 | (50,001) | 139,182 | 189,183 | (46,507) | 142,676 |
| Licensing and non-compete agreements | 7,515 | (7,136) | 379 | 7,515 | (7,050) | 465 |
| Distributor relations and other | 726 | (726) | — | 726 | (726) | — |
| Total | 740,480 | (251,735) | 488,745 | 740,192 | (238,231) | 501,961 |
| Trade names, not subject to amortization | 59,985 | — | 59,985 | 59,985 | — | 59,985 |
| Total intangibles, net | $ 800,465 | $ (251,735) | $ 548,730 | $ 800,177 | $ (238,231) | $ 561,946 |

Amortization expense related to intangible assets was $13.5 million and $13.6 million for the three months ended March 31, 2020 and 2019, respectively. Estimated charges to amortization expense of intangible assets for the remainder of 2020 and the next four years, is as follows *(in thousands)*:

| 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| $ 40,566 | $ 53,645 | $ 52,013 | $ 51,616 | $ 50,525 |

## Note G — Warranties

The Company’s Ergobaby, Liberty and Velocity Outdoor operating segments estimate their exposure to warranty claims based on both current and historical product sales data and warranty costs incurred. The Company assesses the adequacy of its recorded warranty liability quarterly and adjusts the amount as necessary. Warranty liability is included in accrued expenses in the accompanying consolidated balance sheets. A reconciliation of the change in the carrying value of the Company’s warranty liability for the three months ended March 31, 2020 and the year ended December 31, 2019 is as follows (*in thousands*):

| Warranty liability | Three months ended March 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Beginning balance | $ 1,583 | $ 1,624 |
| Provision for warranties issued during the period | 406 | 2,238 |
| Fulfillment of warranty obligations | (626) | (2,279) |
| Ending balance | $ 1,363 | $ 1,583 |

## Note H — Debt

*2018 Credit Facility*

On April 18, 2018, the Company entered into an Amended and Restated Credit Agreement (the "2018 Credit Facility") to amend and restate the 2014 Credit Facility, originally dated as of June 6, 2014 (as previously amended) among the Company, the lenders from time to time party thereto (the “Lenders”), and Bank of America, N.A., as Administrative Agent. The 2018 Credit Facility is secured by all of the assets of the Company, including all of its equity interests in, and loans to, its consolidated subsidiaries. The 2018 Credit Facility provides for (i) revolving loans, swing line loans and letters of credit (the “2018 Revolving Credit Facility”) up to a maximum aggregate amount of $600 million, and (ii) a $500 million term loan (the “2018 Term Loan”). The 2018 Credit Facility also permits the Company, prior to the applicable maturity date, to increase the revolving loan commitment and/or obtain additional term loans in an aggregate amount of up to $250 million (the “Incremental Loans”), subject to certain restrictions and conditions.

2018 Revolving Credit Facility

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

Under the 2018 Revolving Credit Facility, an aggregate amount of up to $100 million in letters of credit may be issued, as well as swing line loans of up to $25 million outstanding at one time. The issuance of such letters of credit and the making of any swing line loan would reduce the amount available under the 2018 Revolving Credit Facility.

2018 Term Loan

The 2018 Term Loan was issued at an original issuance discount of 99.75%. The 2018 Term Loan required quarterly payments of $1.25 million commencing June 30, 2018, with a final payment of all remaining principal and interest due on April 18, 2025, the maturity date of the 2018 Term Loan. In July 2019, the Company repaid approximately $193.8 million of the 2018 Term Loan using a portion of the proceeds received from the sale of Clean Earth, and in November 2019, the Company repaid the remaining $298.8 million balance due under the 2018 Term Loan.

*Senior Notes*

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

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

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

The following table provides the Company’s debt holdings at March 31, 2020 and December 31, 2019 *(in thousands)*:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Senior Notes | $ 400,000 | $ 400,000 |
| Revolving Credit Facility | 200,000 | — |
| Less: Unamortized discounts and debt issuance costs | (5,336) | (5,555) |
| Long term debt | $ 594,664 | $ 394,445 |

Net availability under the 2018 Revolving Credit Facility was approximately $396.4 million at March 31, 2020. Letters of credit outstanding at March 31, 2020 totaled approximately $3.6 million. At March 31, 2020, the Company was in compliance with all covenants as defined in the 2018 Credit Facility.

The Company's Senior Notes consisted of the following carrying value and estimated fair value (in thousands):

| | Maturity Date | Rate | Fair Value Hierarchy Level | March 31, 2020 | |
|---|---|---|---|---|---|
| | | | | Carrying Value | Fair Value |
| Senior Notes | May 1, 2026 | 8.000% | 2 | 400,000 | 384,000 |

<u>Debt Issuance Costs</u>

Deferred debt issuance costs represent the costs associated with the issuance of the Company's financing arrangements. In connection with the repayment of the 2018 Term Loan, the Company wrote-off $8.9 million in deferred financing costs associated with the 2018 Term Loan and $3.4 million associated with the original issue discount.

Since the Company can borrow, repay and reborrow principal under the 2018 Revolving Credit Facility, the debt issuance costs associated with the 2018 Revolving Credit Facility have been classified as other non-current assets in the accompanying consolidated balance sheet. The debt issuance costs associated with the Senior Notes are classified as a reduction of long-term debt in the accompanying consolidated balance sheet.

The following table summarizes debt issuance costs at March 31, 2020 and December 31, 2019, and the balance sheet classification in each of the periods presents (*in thousands*):

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Deferred debt issuance costs | $ 13,252 | $ 13,252 |
| Accumulated amortization | (4,192) | (3,667) |
| Deferred debt issuance costs, net | $ 9,060 | $ 9,585 |
| | | |
| Balance sheet classification: | | |
| Other noncurrent assets | $ 3,724 | $ 4,030 |
| Long-term debt | 5,336 | 5,555 |
| | $ 9,060 | $ 9,585 |

## Note I — Stockholders' Equity

### *Trust Common Shares*

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

### *Trust Preferred Shares*

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

*Series C Preferred Shares*

On November 20, 2019, the Trust issued 4,000,000 7.875% Series C Preferred Shares (the "Series C Preferred Shares") with a liquidation preference of $25.00 per share, and on December 2, 2019, the Trust issued 600,000 of the Series C Preferred Shares which were sold pursuant to an option to purchase additional shares by the underwriters. Total proceeds from the issuance of the Series C Preferred Shares were $115.0 million, or $111.0 million net of underwriters' discount and issuance costs. Distributions on the Series C Preferred Shares will be payable quarterly in arrears, when and as declared by the Company's board of directors on January 30, April 30, July 30, and October 30 of each year, beginning on January 30, 2020, at a rate per annum of 7.875%. Distributions on the Series C Preferred Shares are cumulative and at March 31, 2020, $1.5 million of Series C distributions are accumulated and unpaid. Unless full cumulative distributions on the Series C Preferred Shares have been or contemporaneously are declared and set apart for payment of the Series C Preferred Shares for all past distribution periods, no distribution may be declared or paid for payment on the Trust common shares. The Series C Preferred Shares are not convertible into

Trust common shares and have no voting rights, except in limited circumstances as provided for in the share designation for the Series C Preferred Shares. The Series C Preferred Shares may be redeemed at the Company's option, in whole or in part, at any time after January 30, 2025, at a price of $25.00 per share, plus any accumulated and unpaid distributions (thereon whether authorized or declared) to, but excluding, the redemption date. Holders of Series C Preferred Shares will have no right to require the redemption of the Series C Preferred Shares and there is no maturity date.

*Series B Preferred Shares*

On March 13, 2018, the Trust issued 4,000,000 7.875% Series B Trust Preferred Shares (the "Series B Preferred Shares") with a liquidation preference of $25.00 per share, for gross proceeds of $100.0 million, or $96.5 million net of underwriters' discount and issuance costs. Distributions on the Series B Preferred Shares will be payable quarterly in arrears, when and as declared by the Company's board of directors on January 30, April 30, July 30, and October 30 of each year, beginning on July 30, 2018, at a rate per annum of 7.875%. Distributions on the Series B Preferred Shares are cumulative and at March 31, 2020, $1.3 million of Series B distributions are accumulated and unpaid. Unless full cumulative distributions on the Series B Preferred Shares have been or contemporaneously are declared and set apart for payment of the Series B Preferred Shares for all past distribution periods, no distribution may be declared or paid for payment on the Trust common shares. The Series B Preferred Shares are not convertible into Trust common shares and have no voting rights, except in limited circumstances as provided for in the share designation for the preferred shares. The Series B Preferred Shares may be redeemed at the Company's option, in whole or in part, at any time after April 30, 2028, at a price of $25.00 per share, plus any accumulated and unpaid distributions (thereon whether authorized or declared) to, but excluding, the redemption date. Holders of Series B Preferred Shares will have no right to require the redemption of the Series B Preferred Shares and there is no maturity date.

*Series A Preferred Shares*

On June 28, 2017, the Trust issued 4,000,000 7.250% Series A Trust Preferred Shares (the "Series A Preferred Shares") with a liquidation preference of $25.00 per share, for gross proceeds of $100.0 million, or $96.4 million net of underwriters' discount and issuance costs. When, and if declared by the Company's board of directors, distribution on the Series A Preferred Shares will be payable quarterly on January 30, April 30, July 30, and October 30 of each year, beginning on October 30, 2017, at a rate per annum of 7.250%. Distributions on the Series A Preferred Shares are discretionary and non-cumulative. The Company has no obligation to pay distributions for a quarterly distribution period if the board of directors does not declare the distribution before the scheduled record of date for the period, whether or not distributions are paid for any subsequent distribution periods with respect to the Series A Preferred Shares, or the Trust common shares. If the Company's board of directors does not declare a distribution for the Series A Preferred Shares for a quarterly distribution period, during the remainder of that quarterly distribution period the Company cannot declare or pay distributions on the Trust common shares. The Series A Preferred Shares may be redeemed at the Company's option, in whole or in part, at any time after July 30, 2022, at a price of $25.00 per share, plus any declared and unpaid distributions. Holders of Series A Preferred Shares will have no right to require the redemption of the Series A Preferred Shares and there is no maturity date. The Series A Preferred Shares are not convertible into Trust common shares and have no voting rights, except in limited circumstances as provided for in the share designation for the preferred shares.

***Profit Allocation Interests***

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

Holding Event

The five-year anniversary of the acquisition of Sterno Products occurred in October 2019 which represented a Holding Event. The Company declared and paid a distribution to the Allocation Member of $9.1 million in February 2020. The ten-year anniversary of Liberty occurred in March 2020 which represented a Holding Event. The Holders elected to defer the distribution of $3.3 million until after the end of 2020.

Sale Events

The sales of Manitoba Harvest in February 2019 and Clean Earth in June 2019 each qualified as a Sale Event under the Company's LLC Agreement. During the second quarter of 2019, the Company declared and paid a distribution to the Allocation Member of $8.0 million related to the sale of Manitoba Harvest and working capital settlements from prior Sale Events. The profit allocation distribution was calculated based on the portion of the gain on sale related to the Closing Date Consideration, less the loss on sale of shares that were received as part of the Closing Consideration. During the third quarter of 2019, the Company declared and paid a distribution to the Allocation Member of $43.3 million related to the sale of Clean Earth. During the fourth quarter of 2019, the Company declared and paid a distribution to the Allocation Member of $9.1 million related to the Deferred Consideration from the Manitoba Harvest sale and the working capital settlement received from the sale of Clean Earth.

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

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

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Net income (loss) from continuing operations attributable to Holdings | $ 3,665 | $ (14,296) |
| Less: Distributions paid - Allocation Interests | 9,087 | — |
| Less: Distributions paid - Preferred Shares | 5,542 | 3,781 |
| Less: Accrued distributions - Preferred Shares | 2,869 | 1,334 |
| Net loss from continuing operations attributable to common shares of Holdings | $ (13,833) | $ (19,411) |

***Earnings per share***

The Company calculates basic and diluted earnings per share using the two-class method which requires the Company to allocate to participating securities that have rights to earnings that otherwise would have been available only to Trust shareholders as a separate class of securities in calculating earnings per share. The Allocation Interests are considered participating securities that contain participating rights to receive profit allocations upon the occurrence of a Holding Event or Sale Event. The calculation of basic and diluted earnings per share for the three months ended March 31, 2020 and 2019 reflects the incremental increase during the period in the profit allocation distribution to Holders related to Holding Events.

Basic and diluted earnings per share for the three months ended March 31, 2020 and 2019 attributable to the common shares of Holdings is calculated as follows *(in thousands, except per share data)*:

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Loss from continuing operations attributable to common shares of Holdings | $ (13,833) | $ (19,411) |
| Less: Effect of contribution based profit - Holding Event | 1,517 | 981 |
| Loss from continuing operations attributable to common shares of Holdings | $ (15,350) | $ (20,392) |
| | | |
| Income from discontinued operations attributable to Holdings | $ — | $ 123,604 |
| Less: Effect of contribution based profit - Holding Event | — | — |
| Income from discontinued operations attributable to common shares of Holdings | $ — | $ 123,604 |
| | | |
| Basic and diluted weighted average common shares outstanding | 59,900 | 59,900 |
| | | |
| **Basic and fully diluted income (loss) per common share attributable to Holdings** | | |
| Continuing operations | $ (0.26) | $ (0.34) |
| Discontinued operations | — | 2.06 |
| | $ (0.26) | $ 1.72 |

***Distributions***

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

| Period | | Cash Distribution per Share | | Total Cash Distributions | Record Date | Payment Date |
|---|---|---|---|---|---|---|
| **Trust Common Shares:** | | | | | | |
| January 1, 2020 - March 31, 2020 (1) | $ | 0.36 | $ | 21,564 | April 16, 2020 | April 23, 2020 |
| October 1, 2019 - December 31, 2019 | $ | 0.36 | $ | 21,564 | January 16, 2020 | January 23, 2020 |
| July 1, 2019 - September 30, 2019 | $ | 0.36 | $ | 21,564 | October 17, 2019 | October 24, 2019 |
| April 1, 2019 - June 30, 2019 | $ | 0.36 | $ | 21,564 | July 18, 2019 | July 25, 2019 |
| January 1, 2019 - March 31, 2019 | $ | 0.36 | $ | 21,564 | April 18, 2019 | April 25, 2019 |
| October 1, 2018 - December 31, 2018 | $ | 0.36 | $ | 21,564 | January 17, 2019 | January 24, 2019 |
| **Series A Preferred Shares:** | | | | | | |
| January 30, 2020 - April 29, 2020 (1) | $ | 0.453125 | $ | 1,813 | April 15, 2020 | April 30, 2020 |
| October 30, 2019 - January 29, 2020 | $ | 0.453125 | $ | 1,813 | January 15, 2020 | January 30, 2020 |
| July 30, 2019 - October 29, 2019 | $ | 0.453125 | $ | 1,813 | October 15, 2019 | October 30, 2019 |
| April 30, 2019 - July 29, 2019 | $ | 0.453125 | $ | 1,813 | July 15, 2019 | July 30, 2019 |
| January 30, 2019 - April 29, 2019 | $ | 0.453125 | $ | 1,813 | April 15, 2019 | April 30, 2019 |
| October 30, 2018 - January 29, 2019 | $ | 0.453125 | $ | 1,813 | January 15, 2019 | January 30, 2019 |
| **Series B Preferred Shares:** | | | | | | |
| January 30, 2020 - April 29, 2020 (1) | $ | 0.4921875 | $ | 1,969 | April 15, 2020 | April 30, 2020 |
| October 30, 2019 - January 29, 2020 | $ | 0.4921875 | $ | 1,969 | January 15, 2020 | January 30, 2020 |
| July 30, 2019 - October 29, 2019 | $ | 0.4921875 | $ | 1,969 | October 15, 2019 | October 30, 2019 |
| April 30, 2019 - July 29, 2019 | $ | 0.4921875 | $ | 1,969 | July 15, 2019 | July 30, 2019 |
| January 30, 2019 - April 29, 2019 | $ | 0.4921875 | $ | 1,969 | April 15, 2019 | April 30, 2019 |
| October 30, 2018 - January 29, 2019 | $ | 0.4921875 | $ | 1,969 | January 15, 2019 | January 30, 2019 |
| **Series C Preferred Shares:** | | | | | | |
| January 30, 2020 - April 29, 2020 (1) | $ | 0.4921875 | $ | 2,264 | April 15, 2020 | April 30, 2020 |
| November 20, 2019 - January 29, 2020 | $ | 0.38281 | $ | 1,531 | January 15, 2020 | January 30, 2020 |

(1) This distribution was declared on April 2, 2020.

**Note J — Noncontrolling Interest**

Noncontrolling interest represents the portion of the Company's majority owned subsidiary's net income (loss) and equity that is owned by noncontrolling shareholders. The following tables reflect the Company's ownership percentage of its majority owned operating segments and related noncontrolling interest balances as of March 31, 2020 and December 31, 2019:

| | % Ownership (1) March 31, 2020 | | % Ownership (1) December 31, 2019 | |
|---|---|---|---|---|
| | Primary | Fully Diluted | Primary | Fully Diluted |
| 5.11 | 97.6 | 88.9 | 97.6 | 88.9 |
| Ergobaby | 81.9 | 75.8 | 81.9 | 75.8 |
| Liberty | 91.2 | 86.0 | 91.2 | 86.0 |
| Velocity Outdoor | 99.3 | 87.5 | 99.3 | 93.9 |
| ACI | 69.4 | 65.3 | 69.4 | 65.4 |
| Arnold | 96.7 | 81.4 | 96.7 | 80.2 |
| Foam Fabricators | 100.0 | 91.5 | 100.0 | 91.5 |
| Sterno | 100.0 | 87.5 | 100.0 | 88.5 |

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

| | Noncontrolling Interest Balances | |
|---|---|---|
| *(in thousands)* | March 31, 2020 | December 31, 2019 |
| 5.11 | $ 12,613 | $ 12,056 |
| Ergobaby | 27,407 | 27,036 |
| Liberty | 3,085 | 2,936 |
| Velocity Outdoor | 3,130 | 2,506 |
| ACI | 4,656 | 3,670 |
| Arnold | 1,292 | 1,255 |
| Foam Fabricators | 2,131 | 1,873 |
| Sterno | (606) | (884) |
| Allocation Interests | 100 | 100 |
| | $ 53,808 | $ 50,548 |

## Note K — Fair Value Measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at March 31, 2020 and December 31, 2019 (*in thousands*):

| | Fair Value Measurements at March 31, 2020 | | | |
|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 |
| *Liabilities:* | | | | |
| Put option of noncontrolling shareholders [(1)] | $ (215) | $ — | $ — | $ (215) |
| Total recorded at fair value | $ (215) | $ — | $ — | $ (215) |

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

| | Fair Value Measurements at December 31, 2019 | | | |
|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 |
| *Liabilities:* | | | | |
| Put option of noncontrolling shareholders [(1)] | $ (111) | $ — | $ — | $ (111) |
| Total recorded at fair value | $ (111) | $ — | $ — | $ (111) |

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

Reconciliations of the change in the carrying value of the Level 3 fair value measurements from January 1, 2019 through March 31, 2020 are as follows (*in thousands*):

| | | Level 3 |
|---|---|---|
| Balance at January 1, 2019 | $ | (4,547) |
| Decrease in the fair value of put option of noncontrolling shareholder - Liberty | | 72 |
| Increase in the fair value of put option of noncontrolling shareholder - 5.11 | | (10) |
| Adjustment to Ravin contingent consideration [(1)] | | (2,022) |
| Payment of contingent consideration - Ravin [(1)] | | 6,396 |
| Balance at December 31, 2019 | $ | (111) |
| Increase in the fair value of put option of noncontrolling shareholder - Liberty | | (63) |
| Increase in the fair value of put option of noncontrolling shareholder - 5.11 | | (41) |
| Balance at March 31, 2020 | $ | (215) |

[(1)] The contingent consideration related to Velocity's acquisition of Ravin in September 2018. The purchase price of Ravin included a potential earn-out of up to $25.0 million contingent on the achievement of certain financial metrics for the trailing twelve month period ending December 31, 2018. The fair value of the contingent consideration was estimated at $4.7 million at acquisition date and was calculated using a risk-adjusted option pricing model. The earnout was adjusted to $6.4 million and paid out during the year ended December 31, 2019.

*Valuation Techniques*

The Company has not changed its valuation techniques in measuring the fair value of any of its other financial assets and liabilities during the period. For details of the Company's fair value measurement policies under the fair value hierarchy, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

*Nonrecurring Fair Value Measurements*

There were no assets or liabilities measured on a non-recurring basis during the quarter ended March 31, 2020. The following table provides the assets and liabilities carried at fair value measured on a non-recurring basis as of December 31, 2019. Refer to "Note F – Goodwill and Other Intangible Assets", for a description of the valuation techniques used to determine fair value of the assets measured on a non-recurring basis in the table below.

| | Fair Value Measurements at December 31, 2019 | | | | Expense Year ended |
|---|---|---|---|---|---|
| *(in thousands)* | Carrying Value | Level 1 | Level 2 | Level 3 | December 31, 2019 |
| Goodwill - Velocity Outdoor | $ 30,079 | $ — | $ — | $ 30,079 | $ 32,881 |

**Note L — Income taxes**

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

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

The reconciliation between the Federal Statutory Rate and the effective income tax rate for the three months ended March 31, 2020 and 2019 is as follows:

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| United States Federal Statutory Rate | 21.0 % | (21.0)% |
| State income taxes (net of Federal benefits) | 12.2 | 2.6 |
| Foreign income taxes | (1.6) | (3.3) |
| Expenses of Compass Group Diversified Holdings LLC representing a pass through to shareholders [(1)] | 6.7 | 30.6 |
| Impact of subsidiary employee stock options | 6.2 | 0.4 |
| Credit utilization | (4.5) | (2.5) |
| Non-recognition of NOL carryforwards at subsidiaries | (47.1) | 1.0 |
| Effect of Tax Act | 6.2 | 3.1 |
| Other | 5.2 | 1.5 |
| Effective income tax rate | 4.3 % | 12.4 % |

**(1)** The effective income tax rate for the three months ended March 31, 2020 and 2019 includes a loss at the Company's parent, which is taxed as a partnership.

**Note M — Defined Benefit Plan**

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

The unfunded liability of $4.2 million is recognized in the consolidated balance sheet as a component of other non-current liabilities at March 31, 2020. Net periodic benefit cost consists of the following for the three months ended March 31, 2020 and 2019 *(in thousands*):

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Service cost | $ 139 | $ 127 |
| Interest cost | 8 | 33 |
| Expected return on plan assets | (21) | (40) |
| Amortization of unrecognized loss | 56 | 34 |
| Net periodic benefit cost | $ 182 | $ 154 |

During the three months ended March 31, 2020, per the terms of the pension agreement, Arnold contributed $0.1 million to the plan. For the remainder of 2020, the expected contribution to the plan will be approximately $1.1 million.

The plan assets are pooled with assets of other participating employers and are not separable; therefore, the fair values of the pension plan assets at March 31, 2020 were considered Level 3.

**Note N - Commitments and Contingencies**

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

**Leases**

The Company and its subsidiaries lease manufacturing facilities, warehouses, office facilities, retail stores, equipment and vehicles under various operating arrangements. Certain of the leases are subject to escalation clauses and renewal periods. The Company and its subsidiaries recognize lease expense, including predetermined fixed escalations, on a straight-line basis over the initial term of the lease including reasonably assured renewal periods from the time that

the Company and its subsidiaries control the leased property. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. Certain of our subsidiaries have leases that contain both fixed rent costs and variable rent costs based on achievement of certain operating metrics. The variable lease expense has not been material on a historic basis and no amount was incurred during the quarter ending March 31, 2020. In the three months ended March 31, 2020, the Company recognized $7.3 million in expense related to operating leases in the condensed consolidated statements of operations.

The maturities of lease liabilities at March 31, 2020 were as follows (*in thousands*):

| | | |
|---|---|---|
| 2020 (excluding three months ended March 31, 2020) | $ | 19,270 |
| 2021 | | 24,165 |
| 2022 | | 21,947 |
| 2023 | | 15,754 |
| 2024 | | 12,426 |
| Thereafter | | 41,362 |
| Total undiscounted lease payments | $ | 134,924 |
| Less: Interest | | 39,345 |
| Present value of lease liabilities | $ | 95,579 |

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

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of March 31, 2020:

| **Lease Term and Discount Rate** | |
|---|---|
| Weighted-average remaining lease term (years) | 6.39 |
| Weighted-average discount rate | 7.75% |

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

| | **Line Item in the Company’s Consolidated Balance Sheet** | | **March 31, 2020** |
|---|---|---|---|
| Operating lease right-of-use assets | Other non-current assets | $ | 91,830 |
| Current portion, operating lease liabilities | Other current liabilities | $ | 18,721 |
| Operating lease liabilities | Other non-current liabilities | $ | 76,858 |

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

| | | **Three months ended March 31, 2020** |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ | 7,319 |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | $ | 4,539 |

**Note O — Related Party Transactions**

*Management Services Agreement*

The Company entered into the MSA with CGM effective May 16, 2006. The MSA provides for, among other things, CGM to perform services for the Company in exchange for a management fee paid quarterly and equal to 0.5% of the Company's adjusted net assets, as defined in the MSA. Concurrent with the June 2019 sale of Clean Earth (refer to Note B - Discontinued Operations), CGM agreed to waive the management fee on cash balances held at the Company, commencing with the quarter ended June 30, 2019 and continuing until the quarter during which the Company next borrows under the 2018 Revolving Credit Facility. In March 2020, as a proactive measure to provide the Company with additional cash liquidity in light of the COVID-19 pandemic, the Company elected to draw down $200 million on our 2018 Revolving Credit Facility. The Company and CGM entered into a waiver agreement whereby CGM agreed to waive the portion of the management fee attributable to the cash balances held at the Company as of March 31, 2020. In addition, as a result of an expected decline in earnings and cash flows in the second quarter of 2020, CGM has agreed to waive 50% of the management fee calculated at June 30, 2020 that will be paid in July 2020.

*Integration Services Agreements*

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

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

*5.11*

*Related Party Vendor Purchases* - 5.11 purchases inventory from a vendor who is a related party to 5.11 through one of the executive officers of 5.11 via the executive's 40% ownership interest in the vendor. During the three months ended March 31, 2020 and March 31, 2019, 5.11 purchased approximately $0.5 million and $1.3 million, respectively, in inventory from the vendor.

**Note P - Subsequent Event**

*Acquisition of Marucci Sports, LLC*

On March 6, 2020, the Company, through a wholly-owned subsidiary, Wheelhouse Holdings Inc., a Delaware corporation (“Buyer”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Marucci Sports, LLC, a Delaware limited liability company (“Marucci”), Wheelhouse Holdings Merger Sub LLC, a Delaware limited liability company and a wholly owned Subsidiary of Buyer (“Merger Sub”), and, Wheelhouse 2020 LLC, a Delaware limited liability company (in its capacity as the representative of the unit holders and option holders of Marucci), pursuant to which Merger Sub was to merge with and into Marucci (the “Merger”) such that the separate existence of Merger Sub would cease, with Marucci surviving the Merger as a subsidiary of Buyer. Headquartered in Baton Rouge, Louisiana, Marucci is a leading manufacturer and distributor of baseball and softball equipment. Founded in 2009, Marucci has a product portfolio that includes wood and metal bats, apparel and accessories, batting and fielding gloves and bags and protective gear.

The Buyer, via the Merger, completed the acquisition of Marucci on April 20, 2020 for a total purchase price of approximately $200 million in cash, subject to certain adjustments based on matters such as the working capital and indebtedness balances at the time of the closing. The Company funded the purchase price using funds drawn on its 2018 Revolving Credit Facility in March 2020. The Company's initial equity ownership in Marucci is approximately 92%, as certain existing stakeholders in Marucci invested in the transaction alongside the Company.

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

***This Item 2 contains forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of risks and uncertainties, some of which are beyond our control. Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ, including those discussed in the section entitled "Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q as well as those risk factors discussed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and in the section entitled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q.***

### Overview

Compass Diversified Holdings ("Holdings") was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings LLC (the "Company") was also formed on November 18, 2005. Holdings and the Company (collectively, "CODI") were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. The Company is the operating entity and is a controlling owner of eight businesses, or operating segments, at March 31, 2020. The segments are as follows: 5.11 Acquisition Corp. ("5.11"), The Ergo Baby Carrier, Inc. ("Ergobaby"), Liberty Safe and Security Products, Inc. ("Liberty Safe" or "Liberty"), Velocity Outdoor, Inc. (formerly Crosman Corp.) ("Velocity Outdoor" or "Velocity"), Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits"), AMT Acquisition Corporation ("Arnold"), FFI Compass, Inc. ("Foam Fabricators" or "Foam") and The Sterno Group, LLC ("Sterno").

We acquired our existing businesses (segments) that we own at March 31, 2020 as follows:

| | | Ownership Interest - March 31, 2020 | |
|---|---|---|---|
| **Business** | **Acquisition Date** | **Primary** | **Diluted** |
| Advanced Circuits | May 16, 2006 | 69.4% | 65.3% |
| Liberty Safe | March 31, 2010 | 91.2% | 86% |
| Ergobaby | September 16, 2010 | 81.9% | 75.8% |
| Arnold | March 5, 2012 | 96.7% | 81.4% |
| Sterno | October 10, 2014 | 100.0% | 87.5% |
| 5.11 | August 31, 2016 | 97.6% | 88.9% |
| Velocity Outdoor | June 2, 2017 | 99.3% | 87.5% |
| Foam Fabricators | February 15, 2018 | 100.0% | 91.5% |

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

#### *Branded Consumer*

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

***Ergobaby*** - Headquartered in Los Angeles, California, Ergobaby is dedicated to building a global community of confident parents with smart, ergonomic solutions that enable and encourage bonding between parents and babies. Ergobaby offers a broad range of award-winning baby carriers, strollers, car seats, swaddlers, nursing pillows, and related products that fit into families' daily lives seamlessly, comfortably and safely. Historically, Ergobaby derives more than 50% of its sales from outside of the United States.

***Liberty*** - Founded in 1988, Liberty Safe is the premier designer, manufacturer and marketer of home and gun safes in North America. From its over 300,000 square foot manufacturing facility, Liberty Safe produces a wide range of home and gun safe models in a broad assortment of sizes, features and styles ranging from an entry level product to good, better and best products. Products are marketed under the Liberty brand, as well as a portfolio of licensed and private label brands, including Cabela's, Case IH, Colt and John Deere. Liberty Safe's products are the market share leader and are sold through an independent dealer network ("Dealer sales") in addition to various sporting goods, farm and fleet and home improvement retail outlets ("Non-Dealer sales"). Liberty has the largest independent dealer network in the industry.

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

**Niche Industrial**

***Advanced Circuits -*** Advanced Circuits is a provider of small-run, quick-turn and volume production printed circuit boards ("PCBs") to customers throughout the United States. Historically, small-run and quick-turn PCBs have represented approximately 50% - 55% of Advanced Circuits' gross sales. Small-run and quick-turn PCBs typically command higher margins than volume production PCBs given that customers require high levels of responsiveness, technical support and timely delivery of small-run and quick-turn PCBs and are willing to pay a premium for them. Advanced Circuits is able to meet its customers' demands by manufacturing custom PCBs in as little as 24 hours, while maintaining over 98.0% error-free production rates and real-time customer service and product tracking 24 hours per day.

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

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

***Sterno*** - Sterno, headquartered in Corona, California, is the parent company of Sterno Products, LLC ("Sterno Products"), Sterno Home Inc. ("Sterno Home"), and Rimports Inc. ("Rimports"). Sterno is a leading manufacturer and marketer of portable food warming fuels for the hospitality and consumer markets, flameless candles and house and garden lighting for the home decor market, and wickless candle products used for home decor and fragrance systems. Sterno offers a broad range of wick and gel chafing fuels, butane stoves and accessories, liquid and traditional wax candles, catering equipment and lamps through Sterno Products, flameless candles and outdoor lighting products through Sterno Home, and scented wax cubes and warmer products used for home decor and fragrance systems through Rimports.

Our management team’s strategy for our businesses involves:

- utilizing structured incentive compensation programs tailored to each business to attract, recruit and retain talented managers to operate our businesses;
- regularly monitoring financial and operational performance, instilling consistent financial discipline, and supporting management in the development and implementation of information systems to effectively achieve these goals;
- assisting management in their analysis and pursuit of prudent organic cash flow growth strategies (both revenue and cost related);
- identifying and working with management to execute attractive external growth and acquisition opportunities; and
- forming strong subsidiary level boards of directors to supplement management in their development and implementation of strategic goals and objectives.

While our businesses have different growth opportunities and potential rates of growth, we work with the management teams of each of our businesses to increase the value of, and cash generated by, each business through various initiatives, including making selective capital investments to expand geographic reach, increase capacity or reduce manufacturing costs of our businesses; improving and expanding existing sales and marketing programs; and assisting in the acquisition and integration of complementary businesses. We remain focused on marketing our Company's attractive ownership and management attributes to potential sellers of middle market businesses. In addition, we continue to pursue opportunities for add-on acquisitions by our existing subsidiary companies, which can be particularly attractive from a strategic perspective.

**Impact of COVID-19 on Our Operations, Financial Condition, Liquidity and Results of Operations**

In March 2020, the World Health Organization categorized COVID-19 as a pandemic. The COVID-19 pandemic has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, “shelter-in-place” and “stay-at-home” orders, travel restrictions, business curtailments, particularly retail operations and non-essential businesses, school closures, and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19. We are closely monitoring the impact of the outbreak of COVID-19 on all aspects of our business, including how it will impact our customers, employees, supply chains, and distribution networks. We experienced and expect to continue to experience reductions in customer demand in several of our end-markets. We expect that the government measures taken to address the spread of the virus, the reduced operational status of some of our suppliers, the reductions in production at certain facilities, and the closure of many brick and mortar retail businesses will more meaningfully impact our operations in the second quarter of 2020. The health of our team and various stakeholders is our highest priority, and we are taking multiple steps to provide support and a safe work environment. In March 2020, as a proactive measure to provide the Company with additional cash liquidity in light of the COVID-19 pandemic, the Company elected to draw down $200 million on our 2018 Revolving Credit Facility. The Company and CGM entered into a waiver agreement whereby CGM agreed to waive the portion of the management fee attributable to the cash balances held at the Company as of March 31, 2020. Additionally, as a result of an expected decline in earnings and cash flows in the second quarter of 2020, CGM has agreed to waive 50% of the management fee calculated at June 30, 2020 that will be paid in July 2020. We are also working with management at each of our businesses to reduce our controllable costs, including short-term actions to reduce labor costs, eliminating non-essential travel and reducing discretionary spending. Additionally, our businesses are proactively managing working capital and we have reduced our capital spending plan for the year, without deferring many key strategic ongoing initiatives.

The COVID-19 pandemic has had, and will continue to have, negative impacts on our businesses, results of operations, financial condition and cash flows in the near and medium term. The ultimate impact of COVID-19 on our business is dependent on future developments, including the duration of the pandemic and the related length of its impact on the global economy, which are highly uncertain and cannot be accurately predicted at this time.

See Part II, Item 1A. "Risk Factors" for an update to our existing risk factors related to the COVID-19 pandemic.

**2020 Outlook in Consideration of the COVID-19 Pandemic**

Due to the speed with which the COVID-19 pandemic is developing and the uncertainties created, including the depth and duration of disruptions to customers and suppliers, the full future effect to the Company's business, results of operations, and financial condition for fiscal year 2020 cannot be accurately predicted. Given the many rapidly changing variables related to the pandemic, at this time the Company is not in a position to accurately forecast the full-year 2020 impacts and is withdrawing its full-year fiscal 2020 financial guidance, including guidance on expected Adjusted EBITDA and the payout ratio.

In the nearer term, the Company anticipates that COVID-19 will have a negative impact on its results of operations for the second quarter ended June 30, 2020, including a substantial decrease in Adjusted EBITDA as compared to the prior year second quarter. For example, the Company expects the Sterno Products division of Sterno to be negatively impacted by the pandemic due to that division's reliance on the food service industry. As a result of the decline in Adjusted EBITDA, the Company expects to have lower free cash flow in the second quarter and for the full year compared to the prior year period and full year.

During 2019, the Company received an aggregate total of $771.6 million in net cash proceeds as a result of the divestitures of Manitoba Harvest and Clean Earth, as well as $111.0 million from the issuance and sale of Series C Preferred Shares. As a result the Company believes that it currently has adequate liquidity and capital resources to meet its existing obligations, and quarterly distributions to its shareholders, as approved by the Board of Directors, over the next twelve months. However, if the Company's operations are impacted more than expected in the second quarter of 2020 or continue to be substantially impacted during the third and fourth quarter of 2020 as a result of continued declining COVID-19-related economic conditions and the potential for an extended economic recession, the Company's results of operations could be impacted more dramatically than currently anticipated and as a result, the Company's liquidity and capital resources could be even more constrained than expected.

See Part II, Item 1A. "Risk Factors" for additional information.

**Recent Events**

*Acquisition of Marucci Sports, LLC*

On March 6, 2020, the Company, through a wholly-owned subsidiary, Wheelhouse Holdings Inc., a Delaware Corporation ("Buyer"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Marucci Sports, LLC, a Delaware limited liability company ("Marucci"), Wheelhouse Holdings Merger Sub LLC, a Delaware limited liability company and a wholly owned Subsidiary of Buyer ("Merger Sub"), and, Wheelhouse 2020 LLC, a Delaware limited liability company (in its capacity as the representative of the unit holders and option holders of Marucci), pursuant to which Merger Sub was to be merged with and into Marucci (the "Merger") such that the separate existence of Merger Sub would cease, and Marucci would survive the Merger as a subsidiary of Buyer. Headquartered in Baton Rouge, Louisiana, Marucci is a leading manufacturer and distributor of baseball and softball equipment. Founded in 2009, Marucci has a product portfolio that includes wood and metal bats, apparel and accessories, batting and fielding gloves and bags and protective gear.

The Buyer, via the Merger, completed the acquisition of Marucci on April 20, 2020 for a total purchase price of approximately $200 million in cash, subject to certain adjustments based on matters such as the working capital and indebtedness balances at the time of the closing. The Company funded the purchase price using funds drawn on its 2018 Revolving Credit Facility in March 2020. The Company's initial equity ownership in Marucci is approximately 92%, as certain existing stakeholders in Marucci invested in the transaction alongside the Company.

**Non-GAAP Financial Measures**

"U.S. GAAP" or "GAAP" refer to generally accepted accounting principles in the United States. A non-GAAP financial measure is a numerical measure of historical or future performance, financial position or cash flow that excludes amounts, or is subject to adjustments that effectively exclude amounts, included in the most directly comparable measure calculated and presented in accordance with GAAP in our financial statements, and vice versa for measures that include amounts, or are subject to adjustments that effectively include amounts, that are excluded from the most directly comparable measure as calculated and presented.

## Results of Operations

The following discussion reflects a comparison of the historical results of operations of our consolidated business for the three months ended March 31, 2020 and March 31, 2019, and components of the results of operations as well as those components presented as a percent of net revenues, for each of our businesses on a stand-alone basis. In the first quarter of 2020, we began to see the impacts of COVID-19 on certain of our businesses, markets and operations, particularly those that were most affected by governmental “stay-at home” orders which led to reduced consumer traffic and either a closure of stores by some retailers or a focus on items that were deemed essential. However, while some of our businesses experienced downward revenue pressure as a result of the abrupt halt to large segments of the economy, our businesses are strategically diverse, and whereas some of our businesses were negatively impacted, some of our businesses continued to experience solid demand through the end of the quarter. We expect that the impact of COVID-19 and steps taken by governments to limit the spread of the virus will more meaningfully impact our operations in the second quarter, and general business uncertainty will continue to negatively impact demand in several of our end-markets in the second quarter of 2020, and possibly further into 2020 and beyond. The following results of operations at each of our businesses are not necessarily indicative of the results to be expected for a full year.

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

## Results of Operations - Consolidated

The following table sets forth our unaudited results of operations for the three months ended March 31, 2020 and 2019:

| | Three months ended | |
|---|---|---|
| | March 31, 2020 | March 31, 2019 |
| Net revenues | $ 333,449 | $ 338,857 |
| Cost of revenues | 213,961 | 219,302 |
| Gross profit | 119,488 | 119,555 |
| Selling, general and administrative expense | 83,800 | 81,397 |
| Fees to manager | 8,620 | 10,957 |
| Amortization of intangibles | 13,505 | 13,590 |
| Operating income | 13,563 | 13,611 |
| Interest expense | (8,597) | (18,454) |
| Amortization of debt issuance costs | (525) | (927) |
| Other income (expense) | 661 | (5,734) |
| Income (loss) from continuing operations before income taxes | 5,102 | (11,504) |
| Provision for income taxes | 222 | 1,424 |
| Income (loss) from continuing operations | $ 4,880 | $ (12,928) |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net revenues*

On a consolidated basis, net revenues for the three months ended March 31, 2020 decreased by approximately $5.4 million, or 1.6%, compared to the corresponding period in 2019. During the three months ended March 31, 2020 compared to 2019, we saw notable increases in net sales at 5.11 ($7.7 million increase), and Liberty ($2.8 million increase), offset by decreases in net sales at Ergobaby ($2.8 million decrease), Foam Fabricators ($2.3 million decrease) and Sterno ($8.2 million decrease). Refer to "Results of Operations - Business Segments" for a more detailed analysis of net revenues by business segment.

We do not generate any revenues apart from those generated by the businesses we own. We may generate interest income on the investment of available funds, but we expect such earnings to be minimal. Our investment in our businesses is typically in the form of loans from the Company to such businesses, as well as equity interests in those

companies. Cash flows coming to the Trust and the Company are the result of interest payments on those loans, amortization of those loans and dividends on our equity ownership. However, on a consolidated basis, these items will be eliminated.

*Cost of revenues*

On a consolidated basis, cost of revenues decreased approximately $5.3 million during the three months ended March 31, 2020 compared to the corresponding period in 2019. The decrease in cost of revenues reflects notable decreases at Sterno ($4.4 million decrease) and Foam Fabricators ($2.5 million decrease), partially offset by an increase in cost of sales at 5.11 ($3.4 million increase). Gross profit as a percentage of net revenues was approximately 35.8% in the three months ended March 31, 2020 compared to 35.3% in the three months ended March 31, 2019. Refer to "Results of Operations - Business Segments" for a more detailed analysis of gross profit by business segment.

*Selling, general and administrative expense*

Consolidated selling, general and administrative expense increased approximately $2.4 million during the three months ended March 31, 2020, compared to the corresponding period in 2019. Refer to "Results of Operations - Business Segments" for a more detailed analysis of selling, general and administrative expense by business segment. At the corporate level, general and administrative expense was $3.3 million in both the first quarter of 2020 and the first quarter of 2019.

*Fees to manager*

Pursuant to the Management Services Agreement ("MSA"), we pay CGM a quarterly management fee equal to 0.5% (2.0% annually) of our consolidated adjusted net assets. We accrue for the management fee on a quarterly basis. For the three months ended March 31, 2020, we incurred approximately $8.6 million in management fees as compared to $11.0 million in fees in the three months ended March 31, 2019. The decrease was attributable to the sale of Clean Earth in the second quarter of 2019. Concurrent with the June 2019 sale of Clean Earth, CGM agreed to waive the management fee on cash balances held at the Company, commencing with the quarter ended June 30, 2019 and continuing until the quarter during which the Company next borrowed under the 2018 Revolving Credit Facility. In March 2020, as a proactive measure to provide the Company with additional cash liquidity in light of the COVID-19 pandemic, the Company elected to draw down $200 million on our 2018 Revolving Credit Facility. The Company and CGM entered into a waiver agreement whereby CGM agreed to waive the portion of the management fee attributable to the cash balances held at the Company as of March 31, 2020. Additionally, as a result of an expected decline in earnings and cash flows in the second quarter of 2020, CGM has agreed to waive 50% of the management fee calculated at June 30, 2020 that will be paid in July 2020.

*Amortization expense*

Amortization expense for the three months ended March 31, 2020 decreased $0.1 million as compared to the three months ended March 31, 2019.

*Interest expense*

We recorded interest expense totaling $8.6 million for the three months ended March 31, 2020 compared to $18.5 million for the comparable period in 2019, a decrease of $9.9 million. The decrease in interest expense for the quarter reflects the repayment of our 2018 Term Loan during 2019 using a portion of the proceeds from the sale of Clean Earth and proceeds from the issuance of preferred shares, as well as a decrease of the average amount outstanding under our 2018 Revolving Credit Facility in the first quarter of 2020 as compared to the first quarter of 2019.

*Other income (expense)*

For the quarter ended March 31, 2020, we recorded $0.7 million in other income as compared to $5.7 million in other expense in the quarter ended March 31, 2019, an increase in income of $6.4 million. Other income (expense) primarily reflects the movement in foreign currency at our businesses with international operations. In the prior year, we incurred $5.3 million in loss on the sale of the Tilray Common Stock we received related to the sale of Manitoba Harvest.

*Income taxes*

We had an income tax provision of $0.2 million from continuing operations during the three months ended March 31, 2020 compared to an income tax provision of $1.4 million from continuing operations during the same period in 2019. While our income from continuing operations before taxes for the quarter ended March 31, 2020 increased by approximately $16.6 million as compared to the prior year quarter ended March 30, 2019, our tax provision decreased

$1.2 million as the tax provision reflects an annual effective tax rate at our subsidiaries, the effect of state and local taxes and the related allocation of income, and the losses at our parent company, which is taxed as a partnership.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law. The CARES Act includes many measures to assist companies, including temporary changes to income and non-income-based tax laws, some of which were enacted under the Tax Cuts and Jobs Act (TCJA) in 2017. Some of the key income tax related provisions of the CARES Act were allowing net operating losses ("NOLs") arising in 2018, 2019 or 2020 to be carried back five years, suspending the 80% taxable income limit until 2021, and increasing the taxable income threshold for the limit on the interest deduction from 30% to 50% for tax years beginning in 2019 and 2020 and allowing taxpayers to use 2019 taxable income to calculate the 2020 limit. While several of our subsidiaries were able to take advantage of the income tax related provisions during the first quarter of 2020, the CARES Act did not have a material impact on our consolidated financial statements for the three months ended March 31, 2020. We continue to monitor any effects that may result from the CARES Act.

**Results of Operations - Business Segments**

**Branded Consumer Businesses**

**5.11**

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | March 31, 2019 | | |
| Net sales | $ | 95,781 | 100.0% | $ | 88,089 | 100.0% |
| Gross profit | $ | 47,257 | 49.3% | $ | 42,945 | 48.8% |
| SG&A | $ | 40,235 | 42.0% | $ | 38,171 | 43.3% |
| Operating income | $ | 4,586 | 4.8% | $ | 2,338 | 2.7% |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net sales*

Net sales for the three months ended March 31, 2020 were $95.8 million as compared to net sales of $88.1 million for the three months ended March 31, 2019, an increase of $7.7 million, or 8.7%. This increase is due primarily to retail and e-commerce sales growth of $7.6 million, up 30% from the prior year comparable period, and an increase in DTA sales of $5.7 million during the first quarter of 2020 as compared to the first quarter of the prior year. Retail sales grew largely due to sixteen new retail store openings since March 2019 (bringing the total store count to sixty-one as of March 31, 2020). The increase in sales from our retail and e-commerce and DTA was partially offset by a decrease in sales in our professional and outdoor retail channels as our retail partners began to see the effects of the COVID-19 pandemic on store traffic.

*Gross profit*

Gross profit as a percentage of net sales was 49.3% in the three months ended March 31, 2020 as compared to 48.8% for the three months ended March 31, 2019. Growth in gross profit was driven by channel mix as direct to consumer sales, which realize higher gross profit than wholesale sales, grew versus the prior period. The growth in gross profit for the three months ended March 31, 2020 as compared to the three months ended March 31, 2019 was partially offset by a duty drawback accrual recorded in 2020 for audited duty drawback claims.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended March 31, 2020 was $40.2 million, or 42.0% of net sales compared to $38.2 million, or 43.3% of net sales for the comparable period in 2019. The decrease in selling, general and administrative expenses as a percentage of net sales for the three months ended March 31, 2020 as compared to the prior year comparable period was driven by management’s decision to reduce variable expenses, including travel and entertainment, bonus, and sales and marketing as a response to the effects of the COVID-19 pandemic.

Income from operations

Income from operations for the three months ended March 31, 2020 was $4.6 million, an increase of $2.2 million when compared to income from operations of $2.3 million for the same period in 2019, based on the factors described above.

**Ergobaby**

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | March 31, 2019 | | |
| Net sales | $ | 19,649 | 100.0% | $ | 22,452 | 100.0% |
| Gross profit | $ | 12,766 | 65.0% | $ | 14,218 | 63.3% |
| SG&A | $ | 9,256 | 47.1% | $ | 9,132 | 40.7% |
| Operating income | $ | 1,554 | 7.9% | $ | 3,136 | 14.0% |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net sales*

Net sales for the three months ended March 31, 2020 were $19.6 million, a decrease of $2.8 million, or 12.5%, compared to the same period in 2019. During the three months ended March 31, 2020, international sales were approximately $13.4 million, representing a decrease of $1.7 million over the corresponding period in 2019, primarily as a result of timing of sales volume at Ergobaby's Asia-Pacific distributors and decreased sales at key European accounts. Domestic sales were $6.3 million in the first quarter of 2020, reflecting a decrease of $1.0 million compared to the corresponding period in 2019. The decrease in domestic sales was driven by the Tula brand, primarily in the specialty account channel.

*Gross profit*

Gross profit as a percentage of net sales was 65.0% for the quarter ended March 31, 2020, as compared to 63.3% for the three months ended March 31, 2019. The increase in gross profit as a percentage of sales was due to the mix of products sold, reduced freight costs and a reduction in warranty expense during the quarter ended March 31, 2020.

*Selling, general and administrative expense*

Selling, general and administrative expense as a percentage of net sales increased quarter over quarter, with expense of $9.3 million, or 47.1% of net sales for the three months ended March 31, 2020 as compared to $9.1 million or 40.7% of net sales for the same period of 2019. The increase in selling, general and administrative expense as a percentage of net sales in the three months ended March 31, 2020 as compared to the comparable period in the prior year is due to timing of distributor sales and additional legal expense incurred related to a patent infringement case that was resolved in the Company’s favor in the first quarter of this year.

*Income from operations*

Income from operations for the three months ended March 31, 2020 decreased $1.6 million, compared to the same period of 2019, based on the factors noted above.

**Liberty Safe**

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | March 31, 2019 | | |
| Net sales | $ | 24,960 | 100.0% | $ | 22,204 | 100.0% |
| Gross profit | $ | 6,607 | 26.5% | $ | 4,421 | 19.9% |
| SG&A | $ | 3,337 | 13.4% | $ | 2,863 | 12.9% |
| Operating income | $ | 3,145 | 12.6% | $ | 1,415 | 6.4% |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net sales*

Net sales for the quarter ended March 31, 2020 increased approximately $2.8 million, or 12.4%, to $25.0 million, compared to the corresponding quarter ended March 31, 2019. Non-Dealer sales were approximately $9.8 million in the three months ended March 31, 2020 as compared to $7.7 million in the quarter ended March 31, 2019. The increase in Non-Dealer sales of $2.1 million or 27.3% is attributable to the addition of a new customer in the Farm and Fleet channel during the second half of 2019 as well as increased sales at sporting goods retailers as compared to the first quarter of 2019. Dealer sales totaled approximately $15.1 million in the three months ended March 31, 2020 compared to $14.6 million in the same period in 2019, representing an increase of $0.5 million or 3.4%.

*Gross profit*

Gross profit as a percentage of net sales totaled approximately 26.5% and 19.9% for the quarters ended March 31, 2020 and March 31, 2019, respectively. The increase in gross profit as a percentage of net sales during the three months ended March 31, 2020 compared to the same period in 2019 is primarily attributable to favorable manufacturing variances as a result of increased production volume, and a decrease in material costs in the first quarter of 2020 as compared to the first quarter of 2019 when domestic steel prices were trending higher as a result of steel tariffs.

*Selling, general and administrative expense*

Selling, general and administrative expense was $3.3 million for the three months ended March 31, 2020 compared to $2.9 million for the three months ended March 31, 2019. The increase in selling, general and administrative expense during the first quarter of 2020 is primarily from increased advertising expenses. Selling, general and administrative expense represented 13.4% of net sales in the three months ended March 31, 2020 and 12.9% of net sales for the same period of 2019.

*Income from operations*

Income from operations increased during the three months ended March 31, 2020 to $3.1 million, as compared to $1.4 million in the corresponding period in 2019. This increase was a result of the factors noted above.

**Velocity Outdoor**

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | March 31, 2019 | | |
| Net sales | $ | 30,390 | 100.0 % | $ | 31,137 | 100.0% |
| Gross profit | $ | 7,943 | 26.1 % | $ | 9,287 | 29.8% |
| SG&A | $ | 6,699 | 22.0 % | $ | 6,543 | 21.0% |
| Operating (loss) income | $ | (1,164) | (3.8)% | $ | 341 | 1.1% |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net sales*

Net sales for the three months ended March 31, 2020 were $30.4 million, a decrease of $0.7 million or 2.4%, compared to the same period in 2019. The decrease in net sales for the three months ended March 31, 2020 is primarily due to Ravin new product introduction in 2019 which was not repeated in 2020 partially offset by year over year growth in Crosman Airgun Consumable and Archery product lines.

*Gross profit*

Gross profit for the quarter ended March 31, 2020 decreased $1.3 million as compared to the quarter ended March 31, 2019. Gross profit as a percentage of net sales was 26.1% for the three months ended March 31, 2020 as compared to 29.8% in the three months ended March 31, 2019. The decrease in gross profit as a percentage of net sales was primarily attributable to the impact of Ravin product mix along with a higher concentration of Crosman Consumable sales versus the prior year.

*Selling, general and administrative expense*

Selling, general and administrative expense for the three months ended March 31, 2020 was $6.7 million, or 22.0%

of net sales compared to $6.5 million, or 21.0% of net sales for the three months ended March 31, 2019. The increase in selling, general and administrative expense for the three months ended March 31, 2020 is primarily related to increased recruitment and compensation costs for changes made to the executive management team.

*(Loss) income from operations*

Loss from operations for the three months ended March 31, 2020 was $1.2 million, a decrease of $1.5 million when compared to income from operations of $0.3 million for the same period in 2019, primarily as a result of the factors noted above.

**Niche Industrial Businesses**

**Advanced Circuits**

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | March 31, 2019 | | |
| Net sales | $ | 21,696 | 100.0% | $ | 23,069 | 100.0% |
| Gross profit | $ | 9,737 | 44.9% | $ | 10,604 | 46.0% |
| SG&A | $ | 3,790 | 17.5% | $ | 3,767 | 16.3% |
| Operating income | $ | 5,738 | 26.4% | $ | 6,481 | 28.1% |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net sales*

Net sales for the three months ended March 31, 2020 were $21.7 million, a decrease of approximately $1.4 million or 6.0% compared to the three months ended March 31, 2019. The decrease in net sales in the quarter ended March 31, 2020 as compared to the quarter ended March 31, 2019 was primarily attributable to decreases in sales of Long-Lead Time/Other of approximately $0.8 million, Subcontract of approximately $0.6 million, Quick-Turn Small-Run of approximately $0.3 million and Assembly of approximately $0.2 million in the quarter ended March 31, 2020 as compared to the quarter ended March 31, 2019. This was partially offset by an increase in Quick-Turn Production of approximately $0.3 million and a decrease in promotions during the quarter ended March 31, 2020 of $0.2 million as compared to the quarter ended March 31, 2019.

*Gross profit*

Gross profit as a percentage of net sales decreased 110 basis points during the three months ended March 31, 2020 compared to the corresponding period in 2019 (44.9% at March 31, 2020 compared to 46.0% at March 31, 2019) primarily as a result of sales mix.

*Selling, general and administrative expense*

Selling, general and administrative expense was approximately $3.8 million in both the three months ended March 31, 2020 and the three months ended March 31, 2019. Selling, general and administrative expense represented 17.5% of net sales for the three months ended March 31, 2020 compared to 16.3% of net sales in the corresponding period in 2019.

*Income from operations*

Income from operations for the three months ended March 31, 2020 was approximately $5.7 million compared to $6.5 million in the same period in 2019, a decrease of approximately $0.7 million, principally as a result of the factors described above.

**Arnold**

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | March 31, 2019 | | |
| Net sales | $ | 29,558 | 100.0% | $ | 30,028 | 100.0% |
| Gross profit | $ | 7,914 | 26.8% | $ | 7,240 | 24.1% |
| SG&A | $ | 5,326 | 18.0% | $ | 4,798 | 16.0% |
| Operating income | $ | 1,653 | 5.6% | $ | 1,477 | 4.9% |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net sales*

Net sales for the three months ended March 31, 2020 were approximately $29.6 million, a decrease of $0.5 million compared to the same period in 2019. The decrease in net sales is primarily a result of decreased demand from our European markets in various industries as a result of a slowing European economy. International sales were $11.0 million in the three months ended March 31, 2020 and $12.1 million in the three months ended March 31, 2019.

*Gross profit*

Gross profit for the three months ended March 31, 2020 was approximately $7.9 million compared to approximately $7.2 million in the same period of 2019. Gross profit as a percentage of net sales increased to 26.8% for the quarter ended March 31, 2020 from 24.1% in the quarter ended March 31, 2019 principally due to product mix and improvements in operating efficiencies.

*Selling, general and administrative expense*

Selling, general and administrative expense in the three month period ended March 31, 2020 was $5.3 million, an increase in expense of approximately $0.5 million compared to $4.8 million for the three months ended March 31, 2019. Selling, general and administrative expense was 18.0% of net sales in the three months ended March 31, 2020 and 16.0% in the three months ended March 31, 2019. The increase in selling, general and administrative expense as a percentage of net sales was due to an increase in reserves established for accounts receivable during the first quarter of 2020.

*Income from operations*

Income from operations for the three months ended March 31, 2020 was approximately $1.7 million, an increase of $0.2 million when compared to the same period in 2019, as a result of the factors noted above.

**Foam Fabricators**

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | March 31, 2019 | | |
| Net sales | $ | 28,383 | 100.0% | $ | 30,682 | 100.0% |
| Gross profit | $ | 8,665 | 30.5% | $ | 8,488 | 27.7% |
| SG&A | $ | 2,907 | 10.2% | $ | 2,736 | 8.9% |
| Operating income | $ | 3,512 | 12.4% | $ | 3,506 | 11.4% |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net sales*

Net sales for the quarter ended March 31, 2020 were $28.4 million, a decrease of $2.3 million, or 7.5%, compared to the quarter ended March 31, 2019. The decrease in net sales during the quarter was primarily due to a slow down in sales in the appliance and automotive customer sector, partially offset by an increase in the insulated shipping container sector, and nonrecurring construction revenue from the first quarter of 2019.

*Gross profit*

Gross profit as a percentage of net sales was 30.5% and 27.7% for the three months ended March 31, 2020 and 2019, respectively. The increase in gross profit as a percentage of net sales in the quarter ended March 31, 2020 was primarily due to the decreasing price of expanded polystyrene ("EPS") resin. A majority of Foam Fabricator's products are made with EPS resin, an oil and natural gas derived polymer with an added expansion agent, therefore raw material costs will fluctuate based on the price of oil and natural gas.

*Selling, general and administrative expense*

Selling, general and administrative expense for the three months ended March 31, 2020 was $2.9 million as compared to $2.7 million for the three months ended March 31, 2019, an increase of $0.2 million. Selling, general and administrative expense for the three months ended March 30, 2019 included $0.3 million in integration service fees paid to CGM. Excluding the effect of the integration service fee, the selling, general and administrative expense in the first quarter of 2020 increased approximately $0.5 million primarily due to an increase in professional fees and costs incurred to upgrade its enterprise resource planning system.

*Income from operations*

Income from operations was $3.5 million in both the three months ended March 31, 2020 and the three months ended March 31, 2019, with the decrease in net sales and increase in selling, general and administrative expense offset by a decrease in cost of sales.

**Sterno**

| | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | | | March 31, 2019 | | |
| Net sales | $ | 83,032 | 100.0% | $ | 91,196 | 100.0% |
| Gross profit | $ | 18,600 | 22.4% | $ | 22,354 | 24.5% |
| SG&A | $ | 8,953 | 10.8% | $ | 10,093 | 11.1% |
| Operating income | $ | 5,269 | 6.3% | $ | 7,982 | 8.8% |

***Three months ended March 31, 2020 compared to three months ended March 31, 2019***

*Net sales*

Net sales for the three months ended March 31, 2020 were approximately $83.0 million, a decrease of $8.2 million, or 9.0%, compared to the same period in 2019. The net sales variance reflects a decrease in sales at Sterno Products and Sterno Home as a result of the effect of COVID-19 on the food service and retail industries during the latter half of March 2020, partially offset by favorable sales volume at Rimports of wax and essential oils in the first quarter of 2020. We expect the food service and retail industries to continue to be negatively impacted during the second quarter and potentially beyond by COVID-19.

*Gross profit*

Gross profit as a percentage of net sales decreased from 24.5% for the three months ended March 31, 2019 to 22.4% for the same period ended March 31, 2020. The decrease in gross profit in the first quarter of 2020 as compared to the first quarter of 2019 was attributable to product mix, with lower margin sales in the first quarter of 2020, higher freight and tariff costs.

*Selling, general and administrative expense*

Selling, general and administrative expense for the three months ended March 31, 2020 was approximately $9.0 million as compared to $10.1 million for the three months ended March 31, 2019, a decrease of $1.1 million, reflecting lower salaries, commissions, and various cost savings initiatives implemented to address the effects of decreased demand from COVID-19. Selling, general and administrative expense represented 10.8% of net sales for the three months ended March 31, 2020 and 11.1% for the three months ended March 31, 2019.

*Income from operations*

Income from operations for the three months ended March 31, 2020 was approximately $5.3 million, a decrease of $2.7 million compared to the three months ended March 31, 2019 based on the factors noted above.

## Liquidity and Capital Resources

*Liquidity*

At March 31, 2020, we had approximately $291.0 million of cash and cash equivalents on hand, an increase of $190.7 million as compared to the year ended December 31, 2019. In March 2020, we drew $200 million under our 2018 Revolving Credit Facility to increase our available funds on hand to respond to any changing liquidity needs of our businesses during the COVID-19 pandemic. The majority of our cash is in non-interest bearing checking accounts or invested in short-term money market accounts and is maintained in accordance with the Company's investment policy, which identifies allowable investments and specifies credit quality standards. The change in cash and cash equivalents is as follows:

*Operating Activities:*

| | Three months ended | |
|---|---|---|
| *(in thousands)* | **March 31, 2020** | **March 31, 2019** |
| Cash provided by (used in) operating activities | $ 33,986 | $ (8,936) |

For the three months ended March 31, 2020, cash flows provided by operating activities totaled approximately $34.0 million, which represents a $42.9 million increase compared to cash used in operating activities of $8.9 million during the three-month period ended March 31, 2019. The increase in cash flows in the first quarter of 2020 is attributable to higher net income from continuing operations in the quarter ended March 31, 2020 as compared to the comparable quarter in the prior year, and an increase in cash provided by working capital. In the prior year, the Company incurred interest expense related to the 2018 Term Loan, which we paid off in the third and fourth quarter of 2019 using the proceeds from the sale of Clean Earth and our Series C Preferred Share Offering. The payoff of the 2018 Term Loan decreased our interest expense in the first quarter of 2020 as compared to the quarter ended March 31, 2019 by approximately $8.5 million. In the quarter ended March 31, 2019, we also recognized a loss of $5.3 million related to the sale of common shares received as part of the consideration for the sale of Manitoba Harvest. Cash provided by operating activities for working capital for the three months ended March 31, 2020 was $7.0 million, as compared to cash used in operating activities for working capital of $18.9 million for the three months ended March 31, 2019. The increase in cash provided by working capital in the current year primarily reflects decreases in accounts receivable and inventory as our businesses attempted to conserve cash in expectation that revenue in the second quarter of 2020 will be negatively impacted by the effect of COVID-19 shelter-in-place orders.

*Investing Activities:*

| | Three months ended | |
|---|---|---|
| *(in thousands)* | **March 31, 2020** | **March 31, 2019** |
| Cash (used in) provided by investing activities | $ (6,646) | $ 168,944 |

Cash flows used in investing activities for the three months ended March 31, 2020 totaled $6.6 million, compared to cash provided by investing activities of $168.9 million in the same period of 2019. Cash provided by investing activities in the prior year quarter primarily related to the proceeds received from the sale of Manitoba Harvest, while investing activities in the three months ended March 31, 2020 reflect capital expenditures. We expect capital expenditures for the full year of 2020 to be approximately $19 million to $26 million, which reflects a reduction in our capital spending from the December 31, 2019 expectation in response to the expected effect of COVID-19 on our cash flows.

*Financing Activities:*

| | Three months ended | |
|---|---|---|
| *(in thousands)* | **March 31, 2020** | **March 31, 2019** |
| Cash provided by (used in) financing activities | $ 164,385 | $ (172,448) |

Cash flows provided by financing activities totaled approximately $164.4 million during the three months ended March 31, 2020 compared to cash flows used in financing activities of $172.4 million during the three months ended

March 31, 2019. Financing activities in both periods reflect the payment of our common and preferred share distributions, with a $1.8 million increase in the preferred share distribution as a result of the issuance of our Series C Preferred Shares in November 2019. In the prior year, we used the proceeds from our sale of Manitoba Harvest to repay amounts outstanding under our 2018 Revolving Credit Facility, while in the current year, we drew $200 million on our 2018 Revolving Credit Facility to increase the cash available for our business. In the quarter ended March 31, 2020, we also made a distribution to the Allocation Member of $9.1 million related to the five year Holding event for our Sterno business.

*Intercompany Debt*

A component of our acquisition financing strategy that we utilize in acquiring the businesses we own and manage is to provide both equity capital and debt capital, raised at the parent level through our existing credit facility. Our strategy of providing intercompany debt financing within the capital structure of the businesses that we acquire and manage allows us the ability to distribute cash to the parent company through monthly interest payments and amortization of the principal on these intercompany loans. Each loan to our businesses has a scheduled maturity and each business is entitled to repay all or a portion of the principal amount of the outstanding loans, without penalty, prior to maturity. Certain of our businesses have paid down their respective intercompany debt balances through the cash flow generated by these businesses and we have recapitalized, and expect to continue to recapitalize, these businesses in the normal course of our business. The recapitalization process involves funding the intercompany debt using either cash on hand at the parent or our applicable Credit Facility, and serves the purpose of optimizing the capital structure at our subsidiaries and providing the noncontrolling shareholders with a distribution on their ownership interest in a cash flow positive business. All of our subsidiaries were in compliance with the financial covenants included within their intercompany credit arrangements at March 31, 2020.

As of March 31, 2020, we had the following outstanding loans due from each of our businesses:

| *(in thousands)* | | |
|---|---|---|
| 5.11 | $ | 183,890 |
| Ergobaby | $ | 35,033 |
| Liberty | $ | 44,524 |
| Velocity Outdoor | $ | 116,940 |
| Advanced Circuits | $ | 60,854 |
| Arnold | $ | 76,630 |
| Foam Fabricators | $ | 85,373 |
| Sterno | $ | 231,761 |

Our primary source of cash is from the receipt of interest and principal on the outstanding loans to our businesses. Accordingly, we are dependent upon the earnings of and cash flow from these businesses, which are available for (i) operating expenses; (ii) payment of principal and interest under our 2018 Credit Facility; (iii) payments to CGM due pursuant to the MSA and the LLC Agreement; (iv) cash distributions to our shareholders; and (v) investments in future acquisitions. Payments made under (iii) above are required to be paid before distributions to shareholders and may be significant and exceed the funds held by us, which may require us to dispose of assets or incur debt to fund such expenditures.

*Financing Arrangements*

*2018 Credit Facility*

In April 2018, we entered into an Amended and Restated Credit Agreement (the "2018 Credit Facility") to amend and restate the 2014 Credit Facility. The 2018 Credit Facility provides for (i) revolving loans, swing line loans and letters of credit (the “2018 Revolving Credit Facility”) up to a maximum aggregate amount of $600 million, and (ii) a $500 million term loan (the “2018 Term Loan”). The 2018 Credit Facility also permits the Company, prior to the applicable maturity date, to increase the revolving loan commitment and/or obtain additional term loans in an aggregate amount of up to $250 million (the “Incremental Loans”), subject to certain restrictions and conditions. In Jul 2019, we repaid $193.8 million of the 2018 Term Loan, and in November 2019, we repaid the remaining $298.8 million due under the 2018 Term Loan.

We had $396.4 million in net availability under the 2018 Revolving Credit Facility at March 31, 2020. The outstanding borrowings under the 2018 Revolving Credit Facility include $3.6 million of outstanding letters of credit at March 31, 2020.

*Senior Notes*

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

The following table reflects required and actual financial ratios as of March 31, 2020 included as part of the affirmative covenants in our 2018 Credit Facility.

| Description of Required Covenant Ratio | Covenant Ratio Requirement | Actual Ratio |
|---|---|---|
| Consolidated Fixed Charge Coverage Ratio | Greater than or equal to 1.50:1.0 | 2:67:1.0 |
| Consolidated Senior Secured Leverage Ratio | Less than or equal to 3.50:1.0 | 0.00:1.0 |
| Consolidated Total Leverage Ratio | Less than or equal to 5.00:1.0 | 1.45:1.0 |

*Interest Expense*

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

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Interest on credit facilities | $ 249 | $ 8,774 |
| Interest on Senior Notes | 8,000 | 8,000 |
| Unused fee on Revolving Credit Facility | 400 | 387 |
| Amortization of original issue discount | — | 152 |
| Unrealized loss on interest rate derivative (1) | — | 1,099 |
| Other interest expense | 89 | 51 |
| Interest income | (141) | (9) |
| Interest expense | $ 8,597 | $ 18,454 |
| | | |
| Average daily balance outstanding - credit facilities | $ 37,363 | $ 709,929 |
| Effective interest rate - credit facilities | 2.7% | 5.6% |

(1) On September 16, 2014, we purchased an interest rate swap (the "Swap") with a notional amount of $220 million effective April 1, 2016 through June 6, 2021. The agreement required us to pay interest on the notional amount at the rate of 2.97% in exchange for the three-month LIBOR rate. In connection with the repayment of the 2018 Term Loan in November 2019, the Company settled the Swap with a payment of $4.9 million, the fair value of the Swap as of the date of termination.

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

**Reconciliation of Non-GAAP Financial Measures**

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

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

The tables below reconcile the most directly comparable GAAP financial measures to Earnings before Interest, Income Taxes, Depreciation and Amortization ("EBITDA"), Adjusted EBITDA, and Cash Flow Available for Distribution and Reinvestment ("CAD").

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

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

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

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

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

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

## Adjusted EBITDA
### Three months ended March 31, 2020

| | Corporate | 5.11 | Ergobaby | Liberty | Velocity Outdoor | ACI | Arnold | Foam | Sterno | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net income (loss)** | $ (1,635) | $ 2,133 | $ 903 | $ 1,608 | $ (3,302) | $ 2,821 | $ 616 | $ 1,369 | $ 367 | $ 4,880 |
| Adjusted for: | | | | | | | | | | |
| Provision (benefit) for income taxes | — | (1,864) | (7) | 538 | (453) | 1,427 | (454) | 1,032 | 3 | 222 |
| Interest expense, net | 8,536 | 26 | — | — | 35 | — | — | — | — | 8,597 |
| Intercompany interest | (17,732) | 3,820 | 650 | 982 | 2,517 | 1,447 | 1,467 | 1,838 | 5,011 | — |
| Depreciation and amortization | 101 | 5,253 | 2,061 | 426 | 3,305 | 684 | 1,655 | 3,110 | 5,736 | 22,331 |
| ***EBITDA*** | (10,730) | 9,368 | 3,607 | 3,554 | 2,102 | 6,379 | 3,284 | 7,349 | 11,117 | 36,030 |
| Other (income) expense | 1 | 370 | — | (4) | (18) | 5 | — | (790) | (225) | (661) |
| Noncontrolling shareholder compensation | — | 515 | 207 | 7 | 650 | 124 | 16 | 258 | 278 | 2,055 |
| Other | (1) | — | — | — | — | — | — | — | — | (1) |
| Management fees | 7,432 | 250 | 125 | 125 | 125 | 125 | 125 | 188 | 125 | 8,620 |
| ***Adjusted EBITDA*** | $ (3,298) | $ 10,503 | $ 3,939 | $ 3,682 | $ 2,859 | $ 6,633 | $ 3,425 | $ 7,005 | $ 11,295 | $ 46,043 |

## Adjusted EBITDA
### Three months ended March 31, 2019

| | Corporate | 5.11 | Ergobaby | Liberty | Velocity Outdoor | ACI | Arnold | Foam | Sterno | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net income (loss) (1)** | $ 104,899 | $ (1,870) | $ 1,523 | $ 153 | $ (1,865) | $ 3,704 | $ 137 | $ 604 | $ 1,446 | $ 108,731 |
| Adjusted for: | | | | | | | | | | |
| Provision (benefit) for income taxes | — | (445) | 626 | 118 | (693) | 1,061 | (263) | 539 | 481 | 1,424 |
| Interest expense, net | 18,411 | (4) | — | — | 48 | (1) | — | — | — | 18,454 |
| Intercompany interest | (20,874) | 4,565 | 979 | 1,080 | 2,779 | 1,737 | 1,584 | 2,277 | 5,873 | — |
| Depreciation and amortization | 493 | 5,258 | 2,119 | 428 | 3,312 | 707 | 1,644 | 3,067 | 5,485 | 22,513 |
| ***EBITDA*** | 102,929 | 7,504 | 5,247 | 1,779 | 3,581 | 7,208 | 3,102 | 6,487 | 13,285 | 151,122 |
| Gain on sale of businesses | (121,659) | — | — | — | — | — | — | | — | (121,659) |
| Other (income) expense | 362 | (8) | — | 43 | 11 | (58) | (2) | 16 | 70 | 434 |
| Noncontrolling shareholder compensation | — | 559 | 225 | 9 | 270 | 6 | (15) | 254 | 420 | 1,728 |
| Loss on sale of investment | 5,300 | — | — | — | — | — | — | — | — | 5,300 |
| Integration services fee | — | — | — | — | — | — | — | 281 | — | 281 |
| Other | — | — | — | 266 | — | 58 | — | — | — | 324 |
| Management fees | 9,769 | 250 | 125 | 125 | 125 | 125 | 125 | 188 | 125 | 10,957 |
| ***Adjusted EBITDA (2)*** | $ (3,299) | $ 8,305 | $ 5,597 | $ 2,222 | $ 3,987 | $ 7,339 | $ 3,210 | $ 7,226 | $ 13,900 | $ 48,487 |

(1) Net income (loss) does not include loss from discontinued operations for the three months ended March 31, 2019.

(2) As a result of the sale of Clean Earth in June 2019, Adjusted EBITDA for the three months ended March 31, 2019 does not include Adjusted EBITDA from Clean Earth of $8.3 million.

*Reconciliation of Cash Flow Available for Distribution and Reinvestment*

The table below details cash receipts and payments that are not reflected on our income statement in order to provide an additional measure of management's estimate of cash flow available for distribution ("CAD"). CAD is a non-GAAP measure that we believe provides additional, useful information to our shareholders in order to enable them to evaluate our ability to make anticipated quarterly distributions. CAD is not meant to be a substitute for GAAP, and may be different from or otherwise inconsistent with non-GAAP financial measures used by other companies.

The following table reconciles CAD to net income (loss) and cash flows provided by operating activities, which we consider to be the most directly comparable financial measure calculated and presented in accordance with GAAP.

| | Three Months Ended | |
|---|---|---|
| *(in thousands)* | **March 31, 2020** | **March 31, 2019** |
| Net income | $ 4,880 | $ 110,158 |
| Adjustment to reconcile net income to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 21,806 | 28,638 |
| Gain on sale of businesses | — | (121,659) |
| Amortization of debt issuance costs and original issue discount | 525 | 1,079 |
| Unrealized loss on interest rate hedge | — | 1,099 |
| Noncontrolling shareholder charges | 2,055 | 2,205 |
| Provision for loss on receivables | 883 | 696 |
| Deferred taxes | (2,692) | (2,323) |
| Other | (515) | 334 |
| Changes in operating assets and liabilities | 7,044 | (29,163) |
| Net cash provided by (used in) operating activities | 33,986 | (8,936) |
| Plus: | | |
| Unused fee on revolving credit facility | 400 | 387 |
| Integration services fee (1) | — | 281 |
| Successful acquisition costs | — | 366 |
| Realized loss from foreign currency (2) | — | 363 |
| Loss on sale of Tilray Common Stock | — | 5,300 |
| Changes in operating assets and liabilities | — | 29,163 |
| Less: | | |
| Payment of interest rate swap | — | 94 |
| Changes in operating assets and liabilities | 7,044 | — |
| Maintenance capital expenditures: (3) | | |
| Compass Group Diversified Holdings LLC | — | — |
| 5.11 | 174 | 212 |
| Advanced Circuits | 17 | 188 |
| Arnold | 1,060 | 1,112 |
| Clean Earth | — | 1,350 |
| Ergobaby | 98 | 71 |
| Foam Fabricators | 526 | 498 |
| Liberty | 186 | 126 |
| Sterno | 326 | 452 |
| Velocity Outdoor | 873 | 988 |
| Other | 883 | 403 |
| Preferred share distribution | 5,542 | 3,781 |
| **Estimated cash flow available for distribution and reinvestment** | $ 17,657 | $ 17,649 |
| | | |
| Distribution paid in April 2020/2019 | $ (21,564) | $ (21,564) |

[1] Represents fees paid by newly acquired companies to the Manager for integration services performed during the first year of ownership, payable quarterly.

[2] Reflects the foreign currency transaction gain or loss resulting from the Canadian dollar intercompany loans issued to Manitoba Harvest.

[3] Represents maintenance capital expenditures that were funded from operating cash flow, net of proceeds from the sale of property, plant and equipment, and excludes growth capital expenditures of approximately $3.3 million for the three months ended March 31, 2020 and $2.5 million for the three months ended March 31, 2019.

*Seasonality*

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

***Related Party Transactions***

*Management Services Agreement*

We entered into the MSA with CGM effective May 16, 2006. The MSA provides for, among other things, CGM to perform services for the Company in exchange for a management fee paid quarterly and equal to 0.5% of the Company's adjusted net assets, as defined in the MSA. Concurrent with the June 2019 sale of Clean Earth (refer to Note B - Discontinued Operations), CGM agreed to waive the management fee on cash balances held at the Company, commencing with the quarter ended June 30, 2019 and continuing until the quarter during which the Company next borrowed under the 2018 Revolving Credit Facility. In March 2020, as a proactive measure to provide the Company with additional cash liquidity in light of the COVID-19 pandemic, the Company elected to draw down $200 million on our 2018 Revolving Credit Facility. The Company and CGM entered into a waiver agreement whereby CGM agreed to waive the portion of the management fee attributable to the cash balances held at the Company as of March 31, 2020. In addition, as a result of an expected decline in earnings and cash flows in the second quarter of 2020, CGM has agreed to waive 50% of the management fee calculated at June 30, 2020 that will be paid in July 2020.

*Integrations Services Agreements*

Foam Fabricators, which was acquired in 2018, entered into an Integration Services Agreement ("ISA") with CGM. The ISA provides for CGM to provide services for new platform acquisitions to, amongst other things, assist the management at the acquired entities in establishing a corporate governance program, implement compliance and reporting requirements of the Sarbanes-Oxley Act of 2002, as amended, and align the acquired entity's policies and procedures with our other subsidiaries. Each ISA is for the twelve-month period subsequent to the acquisition. Foam Fabricators paid CGM $2.3 million over the term of the ISA, with $2.0 million paid in 2018 and $0.3 million in 2019.

*5.11 - Related Party Vendor Purchases*

5.11 purchases inventory from a vendor who is a related party to 5.11 through one of the executive officers of 5.11 via the executive's 40% ownership interest in the vendor. During the three months ended March 31, 2020 and 2019, 5.11 purchased approximately $0.5 million and $1.3 million, respectively, in inventory from the vendor.

*Profit Allocation Payments*

October 2019 represented the five-year anniversary of the Company's acquisition of Sterno, which qualified as a Holding Event under the Company's LLC Agreement (the "Sterno Holding Event"). During the first quarter of 2020, the Company declared and paid a distribution of $9.1 million to the Allocation Member related to the Sterno Holding Event. The ten-year anniversary of Liberty occurred in March 2020 which represented a Holding Event. The holders of the Allocation Interests elected to defer the distribution of $3.3 million until after the end of 2020.

The sales of Manitoba Harvest in February 2019 and Clean Earth in June 2019 each qualified as a Sale Event under the Company's LLC Agreement. During the second quarter of 2019, the Company declared and paid a distribution to the Allocation Member of $8.0 million related to the sale of Manitoba Harvest and working capital settlements from prior Sale Events. The profit allocation distribution was calculated based on the portion of the gain on sale related to the Closing Date Consideration, less the loss on sale of shares that were received as part of the Closing Consideration. During the third quarter of 2019, the Company declared and paid a distribution to the Allocation Member of $43.3 million related to the sale of Clean Earth. During the fourth quarter of 2019, the Company declared and paid a distribution to the Allocation Member of $9.1 million related to the Deferred Consideration from the Manitoba Harvest sale and the working capital settlement received from the sale of Clean Earth.

### *Off-Balance Sheet Arrangements*

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

### *Contractual Obligations*

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

The table below summarizes the payment schedule of our contractual obligations at March 31, 2020:

| *(in thousands)* | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
|---|---|---|---|---|---|
| Long-term debt obligations [1] | $ 795,582 | $ 32,000 | $ 64,000 | $ 267,582 | $ 432,000 |
| Operating lease obligations [2] | 134,924 | 19,270 | 46,112 | 28,180 | 41,362 |
| Purchase obligations [3] | 800,271 | 223,367 | 288,690 | 288,214 | — |
| Total [4] | $ 1,730,777 | $ 274,637 | $ 398,802 | $ 583,976 | $ 473,362 |

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

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

**(3)** Reflects non-cancelable commitments as of March 31, 2020, including: (i) shareholder distributions of $110.4 million; (ii) estimated management fees of $30.9 million per year over the next five years; and (iii) other obligations including amounts due under employment agreements. Distributions to our shareholders are approved by our board of directors each quarter. The amount ultimately approved as future quarterly distributions may differ from the amount included in this schedule.

**(4)** The contractual obligation table does not include approximately $1.1 million in liabilities associated with unrecognized tax benefits as of March 31, 2020 as the timing of the recognition of this liability is not certain. The amount of the liability is not expected to significantly change in the next twelve months.

### *Critical Accounting Estimates*

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

Except as set forth below, our critical accounting estimates have not changed materially from those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, for the year ended December 31, 2019, as filed with the Securities and Exchange Commission ("SEC") on February 26, 2020.

*Goodwill and Indefinite-lived Intangible Asset Impairment Testing*

*Goodwill*

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

We use a qualitative approach to test goodwill for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment testing. The qualitative factors we consider include, in part, the general macroeconomic environment, industry and market specific conditions for each reporting unit, financial performance including actual versus planned results and results of relevant prior periods, operating costs and cost impacts, as well as issues or events specific to the reporting unit. If qualitative factors are not sufficient to determine that the fair value of a reporting unit is more likely than not to exceed its carrying value, we will perform a

quantitative test of the reporting unit whereby we estimate the fair value of the reporting unit using an income approach or market approach, or a weighting of the two methods. Under the income approach, we estimate the fair value of our reporting unit based on the present value of future cash flows. Cash flow projections are based on management's estimate of revenue growth rates and operating margins and take into consideration industry and market conditions as well as company specific economic factors. The discount rate used is based on the weighted average cost of capital adjusted for the relevant risk associated with the business and the uncertainty associated with the reporting unit's ability to execute on the projected cash flows. Under the market approach, we estimate fair value based on market multiples of revenue and earnings derived from comparable public companies with operating characteristics that are similar to the reporting unit. When market comparables are not meaningful or available, we estimate the fair value of the reporting unit using only the income approach.

*2020 Annual Impairment Testing* - For our annual impairment testing at March 31, 2020, we performed a qualitative assessment of our reporting units. As part of our current year analysis, we have considered how we expect the COVID-19 pandemic to impact our future operating results and short and long-term financial condition. In addition to the typical qualitative factors we consider as part of the assessment, we went through a process with each of our reporting units whereby we considered various scenarios for the remainder of the year, probability weighted for what we consider the most likely outcome given existing facts and circumstances. This process included consideration of the reporting unit's industry and customers, including customer liquidity, operational capacity given local government restrictions imposed to prevent spread of the COVID-19 virus, supply chain constraints that may exist as a result of the virus and ability of the subsidiary to reduce cash outflows. The results of the qualitative analysis indicated that it was more-likely-than-not that the fair value of our 5.11, ACI, Arnold, Liberty and Sterno reporting units exceeded their carrying value. Based on our analysis, we determined that our Ergobaby, Foam Fabricators and Velocity operating segments required quantitative testing because we could not conclude that the fair value of these reporting units significantly exceeded the carrying value based on qualitative factors alone.

We performed the quantitative tests of Ergobaby, Foam Fabricators and Velocity using an income approach to determine the fair value of the reporting units. We were unable to use a market approach due to the current market conditions as a result of the COVID-19 pandemic resulting in significant volatility and lack of available market comparables. In developing the prospective financial information used in the income approach, we considered recent market conditions, taking into consideration the uncertainty associated with the COVID-19 pandemic and its economic fallout. The prospective financial information considers reporting unit specific facts and circumstances and is our best estimate of operational results and cash flows for each reporting unit as of the date of our impairment testing. For Ergobaby, the discount rate used in the income approach was 15.9% and the results of the quantitative impairment testing indicated that the fair value of the Ergobaby reporting unit exceeded the carrying value by 14.0%. For Foam Fabricators, the discount rate used in the income approach was 13.3%, and the results of the quantitative impairment testing indicated that the fair value of the Foam Fabricators reporting unit exceeded the carrying value by 3.8%. The impairment test for Velocity used a discount rate of 12.8% in the income approach, and the results of the quantitative impairment testing indicated that the fair value of the Velocity reporting unit exceeded the carrying value by 16.4%. The prospective financial information that is used to determine the fair values of the reporting units requires us to make assumptions regarding future operational results including revenue growth rates and gross margins. If we do not achieve the forecasted revenue growth rates and gross margins, the results of the quantitative testing could change, potentially leading to additional testing and impairment at the reporting units that were tested quantitatively.

*2019 Interim Impairment Testing* - As a result of operating results below forecasts in the current period as well as a re-forecast of the Velocity business in which planned earnings and revenue fell below the forecasts of prior periods, we determined that a triggering event had occurred at Velocity Outdoor in the third quarter of 2019. We performed goodwill impairment testing at Velocity as of September 30, 2019. For the quantitative impairment test at Velocity, we utilized an income approach. Cash flow projections are based on management's estimate of revenue growth rates and operating margins, and take into consideration industry and market conditions as well as company specific economic factors. We used a weighted average cost of capital of 12.2% in the income approach. The discount rate used was based on the weighted average cost of capital adjusted for the relevant risk associated with business specific characteristics and Velocity's ability to execute on the projected cash flows. Based on the results of the impairment test, the fair value of Velocity did not exceed the carrying value, indicating that the goodwill at Velocity is impaired. The difference between the carrying value and fair value of the Velocity business was $32.9 million, which the Company recorded as impairment expense during the year ended December 31, 2019.

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

that the fair value of the Liberty reporting unit exceeded the carrying value by 135%. All of our other reporting units were tested qualitatively as of March 31, 2019, and the results of the qualitative analysis indicated that the fair value exceeded their carrying value.

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

*Indefinite-lived intangible assets*

We use a qualitative approach to test indefinite lived intangible assets for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform quantitative impairment testing. Our indefinite-lived intangible assets consist of trade names with a carrying value of approximately $60.0 million. The results of the qualitative analysis of our reporting unit's indefinite-lived intangible assets, which we completed as of March 31, 2020 and 2019, indicated that the fair value of the indefinite lived intangible assets exceeded their carrying value. The Ergobaby and Liberty reporting units have indefinite lived trade names that were tested in conjunction with the goodwill impairment tests at March 31, 2020 and March 31, 2019, respectively. The results of the quantitative impairment testing indicated that the trade names were not impaired.

*Revenue from Contracts with Customers*

The Company recognizes revenue in accordance with the provisions of Revenue from Contracts with Customers, or ASC 606. The revenue standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In addition, the standard requires disclosure of the amount, timing and uncertainty of cash flows arising from contracts with customers.

Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for these goods or services, and excludes any sales incentives or taxes collected from customers which are subsequently remitted to government authorities. The Company’s contracts with customers often include promises to transfer multiple products to a customer. Determining whether the promises are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Once the performance obligations are identified, the Company determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. The Company then allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method. The corresponding revenues are recognized as the related performance obligations are satisfied as discussed above. Judgment is required to determine the standalone selling price for each distinct performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately and therefore observable.

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

*Business Combinations*

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

We consider factors such as historical information, our plans for the asset and similar assets held by our previously acquired portfolio companies. The impact could result in either higher or lower amortization and/or depreciation expense.

***Recent Accounting Pronouncements***

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

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

There have been no material changes to our market risk since December 31, 2019. For a further discussion of our exposure to market risk, refer to the section entitled "Quantitative and Qualitative Disclosures about Market Risk" that was disclosed in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on February 26, 2020.

## ITEM 4. CONTROLS AND PROCEDURES

As required by Securities Exchange Act of 1934, as amended (the "Exchange Act") Rule 13a-15(b), Holdings' Regular Trustees and the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, conducted an evaluation of the effectiveness of Holdings' and the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), as of March 31, 2020. Based on that evaluation, the Holdings' Regular Trustees and the Chief Executive Officer and Chief Financial Officer of the Company concluded that Holdings' and the Company's disclosure controls and procedures were effective as of March 31, 2020.

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

## PART II
## OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to those legal proceedings associated with the Company’s and Holdings’ business together with legal proceedings for the businesses discussed in the section entitled "Legal Proceedings" that was disclosed in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on February 26, 2020.

### ITEM 1A. RISK FACTORS

The risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 should be considered together with information included in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and should not be considered the only risks to which we are exposed. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, including our results of operations, liquidity and financial condition. We are providing the following information regarding changes that have occurred to the previously disclosed risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Except for such additional information, we believe there have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed with the SEC on February 26, 2020.

***Our financial condition and results of operations are expected to be adversely affected by the COVID-19 pandemic.***

In late 2019, there was an outbreak of a new strain of coronavirus, COVID-19. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic has negatively impacted the global economy, lowered equity valuations, disrupted global supply chains and workforce participation due to “shelter-in-place” restrictions by various governments worldwide, decreased consumer confidence generally and created significant volatility and disruption of financial markets.

The Company’s operations and business have been and are expected to continue to be materially and adversely affected by the COVID-19 pandemic and related weak, or weakening of, economic or other negative conditions. In particular, the Company's businesses dependent on food service and brick and mortar retail operations have been and will continue to be especially susceptible to declining sales due to COVID-19 mitigation efforts. COVID-19 related facility shutdowns mandated by national or regional public health policies could also prevent our sites from operating in full capacity and adversely affect our financial position. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives in the expected timeframe, will depend on future developments. The significance of the impact on the Company’s operations is not yet certain and depends on numerous evolving factors that the Company may not be able to accurately predict or effectively respond to, including, without limitation: the duration and scope of the outbreak; actions taken by governments, businesses, and individuals in response to the outbreak; the effect on economic activity and actions taken in response; the effect on customers and their demand for the Company’s products and services; and the Company’s ability to manufacture, sell, and service its products, including without limitation as a result of supply chain challenges, facility closures, social distancing, restrictions on travel, and shelter-in-place orders. These and other factors relating to or arising from the outbreak could have a material adverse effect on the Company’s business, results of operations, and cash flows. The degree to which COVID-19 and related actions ultimately impact our business, financial position, results of operations and cash flows will depend on factors which are highly uncertain, difficult to predict and beyond our control including the duration, spread and severity of the outbreak, the actions taken to contain COVID-19 and mitigate its public health effects, the impact on the U.S. and global economies and demand for our products, and how quickly and to what extent normal economic and operating conditions resume. Certain of the Company's subsidiaries rely on customers and suppliers outside of the United States. Consequently, they will be negatively affected based on the impact of COVID-19 in regions outside of the United States and actions taken by local governments to try and limit the spread of COVID-19. As such, even if COVID 19 recedes in the United States or if localities re-open within the United States, the performance and the operating results of the company and its subsidiaries may still be negatively impacted based on the spread of the virus in international locations. Even after COVID-19 has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus's global economic impact and any recession that has occurred or may occur in the future.

The Company has been aggressively managing capital expenditures across its businesses during the COVID-19 pandemic, which may result in slower growth or declining sales in future periods. Certain of our businesses have also experienced reduced orders, which will have a negative affect on sales in future periods even if sales in the periods in which orders decline are unaffected. We expect that the impact of COVID-19 to negatively affect our free cash flow. To the extent the impact to our business is materially worse than we currently expect, our board will need to consider how it impacts our future business decisions and strategies. Further, if we are unable to maintain sufficient access to capital, we may be unable to pursue attractive acquisitions or investment opportunities, which would have a negative impact on our growth and financial condition.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. Further, a second wave of COVID-19 later in 2020 or beyond would cause many of the impacts described herein to return or be exacerbated. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

**ITEM 6. EXHIBITS**

| Exhibit Number | Description |
|---|---|
| 31.1* | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant |
| 31.2* | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant |
| 32.1*+ | Certification of Chief Executive Officer of Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2*+ | Certification of Chief Financial Officer of Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.1 | Agreement and Plan of Merger, dated as of March 6, 2020, among Marucci Sports, LLC, Wheelhouse Holdings, Inc., Wheelhouse Holdings Merger Sub LLC and Wheelhouse 2020 LLC (incorporated by reference to Exhibit 99.1 of the Form 8-K filed on March 9, 2020 (File No. 001-34927)) |
| 101.INS* | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover page formatted as Inline XBRL and contained in Exhibit 101 |

* Filed herewith.

\+ In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibit 32.1 and Exhibit 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

## SIGNATURES

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

COMPASS DIVERSIFIED HOLDINGS

By: /s/ Ryan J. Faulkingham

Ryan J. Faulkingham
*Regular Trustee*

Date: April 30, 2020

## SIGNATURES

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

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

By: /s/ Ryan J. Faulkingham

Ryan J. Faulkingham
*Chief Financial Officer*
*(Principal Financial and Accounting Officer)*

Date: April 30, 2020

## EXHIBIT INDEX

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**Exhibit 31.1**

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

I, Elias J. Sabo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Compass Group Diversified Holdings LLC (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

April 30, 2020

/s/ Elias J. Sabo

Elias J. Sabo

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

**Exhibit 31.2**

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

I, Ryan J. Faulkingham, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Compass Diversified Holdings and Compass Group Diversified Holdings LLC (each, the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

April 30, 2020

/s/ Ryan J. Faulkingham

Ryan J. Faulkingham

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

**Exhibit 32.1**

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 March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Elias J. Sabo, Chief Executive Officer of Compass Group Diversified Holdings LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Compass Group Diversified Holdings LLC.

Dated: April 30, 2020

/s/ Elias J. Sabo

Elias J. Sabo

Chief Executive Officer,
Compass Group Diversified Holdings LLC

The foregoing certification is being furnished to accompany Compass Group Diversified Holdings LLC’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 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.

**Exhibit 32.2**

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

In connection with the Quarterly Report of COMPASS DIVERSIFIED HOLDINGS and COMPASS GROUP DIVERSIFIED HOLDINGS LLC on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ryan J. Faulkingham, Regular Trustee of Compass Diversified Holdings and Chief Financial Officer of Compass Group Diversified Holdings LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Compass Diversified Holdings and Compass Group Diversified Holdings LLC.

Dated: April 30, 2020

/s/ Ryan J. Faulkingham

Ryan J. Faulkingham

Regular Trustee, Compass Diversified Holdings and
Chief Financial Officer,
Compass Group Diversified Holdings LLC

The foregoing certification is being furnished to accompany Compass Diversified Holdings’ and Compass Group Diversified Holdings LLC’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of Compass Diversified Holdings and Compass Group Diversified Holdings LLC that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to Compass Diversified Holdings and Compass Group Diversified Holdings LLC and will be retained by Compass Diversified Holdings and Compass Group Diversified Holdings LLC and furnished to the Securities and Exchange Commission or its staff upon request.