

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

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): July 1, 2019 (June 28, 2019)

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

Delaware
(State or other jurisdiction
of incorporation)

001-34927
(Commission
File Number)

57-6218917
(I.R.S. Employer
Identification No.)

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

Delaware
(State or other jurisdiction
of incorporation)

001-34926
(Commission
File Number)

20-3812051
(I.R.S. Employer
Identification No.)

301 Riverside Avenue, Second Floor, Westport, CT 06880

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (203) 221-1703

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Section 2 Financial Information

Item 2.01 Completion of Acquisition or Disposition of Assets

Compass Group Diversified Holdings LLC (the "Company") and Compass Diversified Holdings ("Holdings" and, together with the Company, collectively "CODI," "us" or "we") acquires and manages small to middle market businesses in the ordinary course of its business. The following description relates to the recent divestiture of one such business.

Clean Earth

On May 8, 2019, the Company, as majority stockholder of CEHI Acquisition Corporation ("CEHI") and as Sellers' Representative, entered into a definitive Stock Purchase Agreement (the "Purchase Agreement") with Calrissian Holdings, LLC ("Buyer"), CEHI, the other holders of stock and options of CEHI and, as Buyer's guarantor, Harsco Corporation, to sell to Buyer 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 the issued and outstanding securities of CEHI pursuant to the Purchase Agreement (the "Transaction"). The sale price of CEHI was based on an aggregate total enterprise value of \$625 million and is subject to customary working capital adjustments. After the allocation of the sales price to CEHI non-controlling equityholders and the payment of transaction expenses, CODI is expected to receive approximately \$549 million of total proceeds at closing. This amount is in respect of the Company's outstanding loans to CEHI (including accrued interest) and its equity interests in CEHI, which was acquired by CODI on August 26, 2014. The proceeds will be used, in part, to repay outstanding debt under the Company's revolving credit facility and for general corporate purposes. CODI expects to record a gain on the sale of CEHI ranging between \$205 million and \$215 million for the quarter ended June 30, 2019.

The foregoing brief description of the Purchase Agreement is not meant to be exhaustive and is qualified in its entirety by the full text of the Purchase Agreement, which is incorporated herein by reference to Exhibit 2.1 to CODI's Current Report on Form 8-K filed on May 9, 2019.

Forward-Looking Statements

This filing may contain certain forward-looking statements, including statements with regard to the future performance of CODI and expectations related to the sale of CEHI. Words such as "believes," "expects," "anticipates," "intends," "projects," and "future" or similar expressions, are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements, and some of these factors are enumerated in the risk factor discussion in the Form 10-K filed by CODI with the SEC for the year ended December 31, 2018 and other filings with the SEC. Except as required by law, CODI undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Section 8 Other Events

Item 8.01 Other Events

On July 1, 2019, CODI issued a press release announcing the closing of the CEHI sale. The foregoing description of the press release is qualified in its entirety by reference to the complete text of the press release furnished as Exhibit 99.1 hereto, which is hereby incorporated by reference herein.

Section 9 Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(b) Pro Forma Financial Information.

The unaudited condensed consolidated pro forma balance sheet of Compass Diversified Holdings at March 31, 2019 and notes thereto and the unaudited condensed consolidated pro forma statements of operations for the three months ended March 31, 2019 and the years ended December 31, 2018, 2017 and 2016 and notes thereto are filed as Exhibit 99.2 hereto and incorporated by reference herein.

d) Exhibits

The following exhibits are furnished herewith:

<u>Exhibit</u>	<u>Description</u>
2.1	<u>Stock Purchase Agreement, dated May 8, 2019, by and among (i) Calrissian Holdings, LLC; (ii) CEHI Acquisition Corporation; (iii); Compass Group Diversified Holdings LLC; (iv) each Stockholder and Optionholder of the Company; and (v) solely for the purposes of Section 9(r) thereof, Harsco Corporation (attached as Exhibit 2.1 to CODI's Current Report on Form 8-K filed on May 9, 2019, and incorporated herein by reference).</u>
99.1	<u>Press Release of the Company dated July 1, 2019 announcing the the sale of Clean Earth.</u>
99.2	<u>Unaudited Condensed Consolidated Pro Forma Balance Sheet of Compass Diversified Holdings at March 31, 2019 and notes thereto and Unaudited Condensed Consolidated Pro Forma Statements of Operations for the three months ended March 31, 2019 and the years ended December 31, 2018, 2017 and 2016 and notes thereto</u>

SIGNATURES

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

Date: July 1, 2019

COMPASS DIVERSIFIED HOLDINGS

By: /s/ Ryan J. Faulkingham

Ryan J. Faulkingham
Regular Trustee

SIGNATURES

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

Date: July 1, 2019

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

By: /s/ Ryan J. Faulkingham

Ryan J. Faulkingham
Chief Financial Officer



Compass Diversified Holdings
Ryan J. Faulkingham
Chief Financial Officer
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Compass Diversified Holdings Closes Sale of Clean Earth Compass Group Management to Waive Management Fee on Cash

Westport, Conn., July 1, 2019 - Compass Diversified Holdings (NYSE: CODI) ("CODI" or the "Company"), an owner of leading middle market businesses, announced today that it has completed the sale of its majority owned subsidiary, CEHI Acquisition Corporation, the parent company of Clean Earth, Inc. ("Clean Earth"), to a wholly-owned subsidiary of Harsco Corporation (NYSE: HSC), pursuant to an agreement it entered into on May 9, 2019.

The sale price of Clean Earth was based on an aggregate enterprise value of \$625 million plus estimated cash and working capital adjustments subject to customary post-closing true-ups. CODI expects to realize a gain on the sale of Clean Earth of between \$205 million and \$215 million and intends to use the net proceeds to repay the remaining outstanding debt under the Company's revolving credit facility and for general corporate purposes.

Moelis & Company LLC and Houlihan Lokey acted as financial advisors to CODI in connection with the transaction. Squire Patton Boggs (US) LLP acted as legal counsel to CODI.

In addition, CODI's Manager, Compass Group Management, has agreed to waive the management fee on cash balances held at CODI, commencing with the management fee due for the quarter ending June 30, 2019 and continuing until the quarter during which the Company next borrows under its revolving credit facility.

Elias Sabo, CEO of Compass Diversified Holdings, stated, "Year to date 2019, CODI has realized gains for shareholders of over \$325 million. This success has enabled the Company to significantly strengthen its balance sheet, during a time when we are waiving our management fee on CODI's cash balance. We remain well positioned to continue to implement our permanent capital model, and to distribute \$1.44 per share annually, as we focus on further enhancing shareholder value."

About Compass Diversified Holdings ("CODI")

CODI owns and manages a diverse family of established North American middle market businesses. Each of its current subsidiaries is a leader in its niche market. CODI maintains controlling ownership interests in each of its subsidiaries in order to maximize its ability to impact long term cash flow generation and value. The Company provides both debt and equity capital for its subsidiaries, contributing to their financial and operating flexibility. CODI utilizes the cash flows generated by its subsidiaries to invest in the long-term growth of the Company and to make cash distributions to its shareholders.

Our eight majority-owned subsidiaries are engaged in the following lines of business:

- The design and marketing of purpose-built tactical apparel and gear serving a wide range of global customers (**5.11**);
- The manufacture of quick-turn, small-run and production rigid printed circuit boards (**Advanced Circuits**);
- The manufacture of engineered magnetic solutions for a wide range of specialty applications and end-markets (**Arnold Magnetic Technologies**);
- The design and marketing of wearable baby carriers, strollers and related products (**Ergobaby**);
- The design and manufacture of custom molded protective foam solutions and OE components (**Foam Fabricators**);
- The design and manufacture of premium home and gun safes (**Liberty Safe**);
- The manufacture and marketing 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 (**The Sterno Group**); and
- The design, manufacture and marketing of airguns, archery products, optics and related accessories (**Velocity Outdoor**).

This press release may contain certain forward-looking statements, including statements with regard to the future performance of CODI and expectations related to the sale of Clean Earth. Words such as "believes," "expects," "anticipates," "intends," "projects," and "future" or similar expressions, are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements, and some of these factors are enumerated in the risk factor discussion in the Form 10-K filed by CODI with the SEC for the year ended December 31, 2018 and other filings with the SEC. Except as required by law, CODI undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Compass Diversified Holdings
PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

On June 28, 2019, Compass Diversified Holdings (the "Company") completed the sale of CEHI Acquisition Corporation ("CEHI"), the parent company of the operating entity, Clean Earth, Inc. ("Clean Earth").

The following unaudited pro forma condensed consolidated financial information is based on the historical consolidated financial statements of the Company including certain pro forma adjustments and has been prepared to illustrate the effect on the historical condensed consolidated financial statements of the Company of the sale of Clean Earth (the "Clean Earth Disposition") for a total enterprise value of \$625 million, and estimated net proceeds of approximately \$327.3 million at closing after repayment of \$224.6 million in intercompany loans. The Clean Earth Disposition is further described in Item 2.01 of this Current Report on Form 8-K.

The unaudited pro forma condensed consolidated statements of operations for the three months ended March 31, 2019 and the years ended December 31, 2018, 2017 and 2016, give effect to the Clean Earth Disposition as if it had occurred as of the beginning of the earliest period presented. The unaudited pro forma condensed consolidated balance sheet gives effect to the pro forma adjustments necessary to reflect the Clean Earth Disposition as if it occurred on March 31, 2019.

The "as reported" financial information for both Compass Diversified Holdings and Clean Earth are derived from the audited financial statements of the Company for the years ended December 31, 2018, 2017 and 2016 as filed on Form 10-K and the unaudited financial statements of the Company as of March 31, 2019 and for the three months ended March 31, 2019, as filed on Form 10-Q.

The "as adjusted" financial information for the three years ended December 31, 2018, 2017 and 2016 reflect the audited financial statements of the Company for the years ended December 31, 2018, 2017 and 2016, less the disposition of FHF Holdings Ltd. ("Manitoba Harvest") which was sold on February 27, 2019. Manitoba Harvest is presented as discontinued operations in the unaudited condensed consolidated statement of operations for the three months ended March 31, 2019 and the unaudited condensed consolidated balance sheet as of March 31, 2019.

The unaudited pro forma financial information is prepared in accordance with Article 11 of Regulation S-X. The unaudited pro forma financial information is for informational purposes only and does not purport to present what our results would actually have been had the Clean Earth Disposition actually occurred on the dates presented or to project our results of operations or financial position for any future period. This financial information may not be predictive of the future results of operations or financial condition of the Company, as the Company's future results of operation and financial condition may differ significantly from the proforma amounts reflected herein due to a variety of factors.

The pro forma adjustments are described in the accompanying notes and are based upon information and assumptions available at the time of the filing of this Current Report on Form 8-K. This unaudited pro forma condensed consolidated financial information should be read in conjunction with the consolidated financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our annual report on Form 10-K for the year ended December 31, 2018 and the condensed consolidated financial statements, and notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our quarterly report on Form 10-Q for the quarterly period ended March 31, 2019.

The pro forma adjustments to the statements of operations for all periods presented do not include the following:

- The non-recurring gain on the Clean Earth Disposition. The gain will be included in the Company's results for the three and six month periods ended June 30, 2019, and,
- Certain non-recurring transaction costs on closing of the sale estimated to be approximately \$10.7 million.

Compass Diversified Holdings
Condensed Consolidated Pro Forma Balance Sheet
at March 31, 2019
(unaudited)

<i>(in thousands)</i>	Compass Diversified Holdings as Reported	Clean Earth Disposition		Pro Forma Consolidated Compass Diversified Holdings
		Less: Clean Earth as Reported	Clean Earth Pro Forma Adjustments	
Assets				
Current assets:				
Cash and cash equivalents	\$ 39,837	\$ (462)	\$ 458,739 (1a)	\$ 498,114
Accounts receivable, net	263,494	(58,025)	—	205,469
Inventories	313,910	—	—	313,910
Prepaid expenses and other current assets	87,964	(7,765)	—	80,199
Total current assets	705,205	(66,252)	458,739	1,097,692
Property, plant and equipment, net	203,549	(61,420)	—	142,129
Operating lease right-of-use assets	103,442	(17,037)	—	86,405
Goodwill	611,883	(140,483)	—	471,400
Intangible assets, net	733,347	(131,342)	—	602,005
Other non-current assets	12,200	(3,903)	—	8,297
Total assets	\$ 2,369,626	\$ (420,437)	\$ 458,739	\$ 2,407,928
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	\$ 91,341	\$ (20,846)	\$ —	\$ 70,495
Accrued expenses	115,824	(11,809)	—	104,015
Due to related party	10,609	—	—	10,609
Current portion, long-term debt	5,000	—	—	5,000
Current portion, operating lease liabilities	19,574	(3,165)	—	16,409
Other current liabilities	7,764	(384)	—	7,380
Total current liabilities	250,112	(36,204)	—	213,908
Deferred income taxes	61,023	(28,704)	—	32,319
Long-term debt	955,395	—	(85,000) (1b)	870,395
Operating lease liabilities	90,701	(14,065)	—	76,636
Other non-current liabilities	11,614	(4,607)	—	7,007
Total liabilities	1,368,845	(83,580)	(85,000)	1,200,265
Stockholders' equity				
Stockholders' equity	948,594	—	216,090 (1c)	1,164,684
Noncontrolling interest	52,187	(9,208)	—	42,979
Total stockholders' equity	1,000,781	(9,208)	216,090	1,207,663
Total liabilities and stockholders' equity	\$ 2,369,626	\$ (92,788)	\$ 131,090	\$ 2,407,928

Compass Diversified Holdings
Condensed Consolidated Pro Forma Statement of Operations
for the three months ended March 31, 2019
(unaudited)

	Compass Diversified Holdings as Reported	Clean Earth Disposition		Pro Forma Consolidated Compass Diversified Holdings
		Less: Clean Earth as Reported	Clean Earth Pro Forma Adjustments	
<i>(in thousands, except per share data)</i>				
Net sales	\$ 402,489	\$ 63,632	\$ —	\$ 338,857
Cost of sales	266,300	46,998	—	219,302
Gross profit	136,189	16,634	—	119,555
Operating expenses:				
Selling, general and administrative expense	93,199	11,436	—	81,763
Management fees	11,082	—	307 (1d)	11,389
Amortization expense	17,040	3,450	—	13,590
Operating income	14,868	1,748	(307)	12,813
Other income (expense):				
Interest expense, net	(18,582)	(129)	978 (1e)	(17,475)
Amortization of debt issuance costs	(927)	—	—	(927)
Loss on sale of securities	(5,300)	—	—	(5,300)
Other expense, net	(571)	—	—	(571)
Income (loss) from continuing operations before income taxes	(10,512)	1,619	671	(11,460)
Provision for income taxes	403	(1,022)	—	1,425
Income (loss) from continuing operations	(10,915)	2,641	671	(12,885)
Loss from discontinued operations, net of income tax	(586)	—	—	(586)
Gain on sale of discontinued operations	121,659	—	—	121,659
Net income	110,158	2,641	671	108,188
Less: Net income from continuing operations attributable to noncontrolling interest	1,300	(68)	—	1,368
Less: Net loss from discontinued operations attributable to noncontrolling interest	(450)	—	—	(450)
Net income attributable to Holdings	\$ 109,308	\$ 2,709	\$ 671	\$ 107,270
Earnings per share - Basic and Fully Diluted				
Net loss from continuing operations attributable to Holdings	\$ (12,215)			\$ (14,253)
Less: Distributions paid - Preferred Shares	3,781			3,781
Less: Accrued Distributions - Preferred Shares	1,334			1,334
Less: Effect of contribution based profit - Holding Event	981		— (1f)	981
Net loss from continuing operations attributable to common shares of Holdings	\$ (18,311)			\$ (20,349)
Basic and diluted weighted average shares outstanding	59,900			59,900
Basic and fully diluted loss per share attributable to Holdings - continuing operations	\$ (0.31)			\$ (0.34)

Compass Diversified Holdings
Condensed Consolidated Pro Forma Statement of Operations
for the year ended December 31, 2018
(unaudited)

	Clean Earth Disposition					Pro Forma Consolidated Compass Diversified Holdings
	Compass Diversified Holdings as Reported	Less: Manitoba Harvest as Reported	Compass Diversified Holdings as Adjusted	Less: Clean Earth as Reported	Clean Earth Pro Forma Adjustments	
<i>(in thousands, except per share data)</i>						
Net sales	\$ 1,691,673	\$ (67,437)	\$ 1,624,236	\$ (266,916)	\$ —	\$ 1,357,320
Cost of sales	1,117,485	(38,560)	1,078,925	(191,446)	—	887,479
Gross profit	574,188	(28,877)	545,311	(75,470)	—	469,841
Operating expenses:						
Selling, general and administrative expense	392,500	(25,741)	366,759	(46,677)	—	320,082
Management fees	44,294	(350)	43,944	—	(1,412) (1d)	42,532
Amortization expense	68,076	(4,540)	63,536	(13,850)	—	49,686
Operating income	69,318	1,754	71,072	(14,943)	1,412	57,541
Other income (expense):						
Interest expense, net	(55,577)	13	(55,564)	319	2,835 (1e)	(52,410)
Amortization of debt issuance costs	(3,905)	—	(3,905)	—	—	(3,905)
Other income (expense), net	(6,336)	16	(6,320)	430	—	(5,890)
Income (loss) from continuing operations before income taxes	3,500	1,783	5,283	(14,194)	4,247	(4,664)
Provision for income taxes	6,548	1,460	8,008	2,458	—	10,466
Income (loss) from continuing operations	(3,048)	323	(2,725)	(16,652)	4,247	(15,130)
Gain on sale of discontinued operations, net of income tax	1,258	—	1,258	—	—	1,258
Net income (loss)	(1,790)	\$ 323	\$ (1,467)	\$ (16,652)	\$ 4,247	\$ (13,872)
Less: Income from continuing operations attributable to noncontrolling interest	3,912	\$ 1,283	\$ 5,195	\$ 22	\$ —	\$ 5,217
Net income (loss) attributable to Holdings	\$ (5,702)	\$ (960)	\$ (6,662)	\$ (16,674)	\$ 4,247	\$ (19,089)
Earnings per share - Basic and Fully Diluted						
Net loss from continuing operations attributable to Holdings	\$ (6,960)					\$ (20,347)
Less: Distributions paid - Preferred Shares	12,179					12,179
Less: Accrued Distributions - Preferred Shares	1,334					1,334
Less: Effect of contribution based profit - Holding Event	5,893				— (1f)	5,893
Net loss from continuing operations attributable to common shares of Holdings	<u>\$ (26,366)</u>					<u>\$ (39,753)</u>
Basic and diluted weighted average shares outstanding	59,900					59,900
Basic and fully diluted loss per share attributable to Holdings - continuing operations	<u>\$ (0.44)</u>					<u>\$ (0.66)</u>

Compass Diversified Holdings
Condensed Consolidated Pro Forma Statement of Operations
for the year ended December 31, 2017
(unaudited)

			Clean Earth Disposition		Pro Forma Consolidated Compass Diversified Holdings	
	Compass Diversified Holdings as Reported	Less: Manitoba Harvest	Compass Diversified Holdings as Adjusted	Less: Clean Earth as Reported		Clean Earth Pro Forma Adjustments
<i>(in thousands, except per share data)</i>						
Net sales	\$ 1,269,729	\$ (55,699)	\$ 1,214,030	\$ (211,247)	\$ —	\$ 1,002,783
Cost of sales	822,020	(30,598)	791,422	(150,028)	—	641,394
Gross profit	447,709	(25,101)	422,608	(61,219)	—	361,389
Operating expenses:						
Selling, general and administrative expense	318,484	(21,092)	297,392	(35,875)	—	261,517
Management fees	32,693	(350)	32,343	—	3,388 (1d)	35,731
Amortization expense	52,003	(4,530)	47,473	(12,807)	—	34,666
Impairment expense	17,325	(8,461)	8,864	—	—	8,864
Operating income	27,204	9,332	36,536	(12,537)	(3,388)	20,611
Other income (expense):						
Interest expense, net	(27,623)	41	(27,582)	327	(48) (1e)	(27,303)
Amortization of debt issuance costs	(4,002)	—	(4,002)	—	—	(4,002)
Loss on sale of investment	(5,620)	—	(5,620)	—	—	(5,620)
Other income, net	2,634	191	2,825	(80)	—	2,745
Income (loss) from continuing operations before income taxes	(7,407)	9,564	2,157	(12,290)	(3,436)	(13,569)
Provision for income taxes	(40,679)	1,469	(39,210)	15,469	—	(23,741)
Income (loss) from continuing operations	33,272	8,095	41,367	(27,759)	(3,436)	10,172
Gain on sale of discontinued operations, net of income tax	340	—	340	—	—	340
Net income (loss)	33,612	8,095	41,707	(27,759)	(3,436)	10,512
Less: Income from continuing operations attributable to noncontrolling interest	5,621	2,959	8,580	(335)	—	8,245
Net income (loss) attributable to Holdings	\$ 27,991	\$ 5,136	\$ 33,127	\$ (27,424)	\$ (3,436)	\$ 2,267
Earnings per share - Basic and Fully Diluted						
Net loss from continuing operations attributable to Holdings	\$ 27,651					\$ 1,927
Less: Distributions paid - Allocation Interests	39,188					39,188
Less: Distributions paid - Preferred Shares	2,457					2,457
Less: Effect of contribution based profit - Holding Event	12,726				(2,654) (1f)	10,072
Net loss from continuing operations attributable to common shares of Holdings	\$ (26,720)					\$ (49,790)
Basic and diluted weighted average shares outstanding	59,900					59,900
Basic and fully diluted loss per share attributable to Holdings - continuing operations	\$ (0.45)					\$ (0.83)

Compass Diversified Holdings
Condensed Consolidated Pro Forma Statement of Operations
for the year ended December 31, 2016
(unaudited)

	Clean Earth Disposition					
	Compass Diversified Holdings as Reported	Less: Manitoba Harvest	Compass Diversified Holdings as Adjusted	Less: Clean Earth as Reported	Clean Earth Pro Forma Adjustments	Pro Forma Consolidated Compass Diversified Holdings
<i>(in thousands, except per share data)</i>						
Net sales	\$ 978,309	\$ (59,323)	\$ 918,986	\$ (188,997)	\$ —	\$ 729,989
Cost of sales	651,739	(32,818)	618,921	(134,667)	—	484,254
Gross profit	326,570	(26,505)	300,065	(54,330)	—	245,735
Operating expenses:						
Selling, general and administrative expense	217,830	(21,329)	196,501	(30,018)	—	166,483
Management fees	29,406	(347)	29,059	—	4,681 (1d)	33,740
Amortization expense	35,069	(4,508)	30,561	(12,578)	—	17,983
Impairment expense/ loss on disposal of assets	25,204	—	25,204	(3,305)	—	21,899
Operating income	19,061	(321)	18,740	(8,429)	(4,681)	5,630
Other income (expense):						
Interest expense, net	(24,651)	10	(24,641)	461	72 (1e)	(24,108)
Amortization of debt issuance costs	(2,763)	—	(2,763)	—	—	(2,763)
Gain on investment	74,490	—	74,490	—	—	74,490
Other income, net	(2,919)	2,804	(115)	488	—	373
Income (loss) from continuing operations before income taxes	63,218	2,493	65,711	(7,480)	(4,609)	53,622
Provision for income taxes	9,469	1,682	11,151	2,782	—	13,933
Income (loss) from continuing operations	53,749	811	54,560	(10,262)	(4,609)	39,689
Income from discontinued operations, net of income tax	473	—	473	—	—	473
Gain on sale of discontinued operations, net of income tax	2,308	—	2,308	—	—	2,308
Net income (loss)	\$ 56,530	\$ 811	\$ 57,341	\$ (10,262)	\$ (4,609)	\$ 42,470
Less: Income from continuing operations attributable to noncontrolling interest	1,961	1,165	3,126	79	—	3,205
Less: Loss from discontinued operations attributable to noncontrolling interest	(116)	—	(116)	—	—	(116)
Net loss attributable to Holdings	\$ 54,685	\$ (354)	\$ 54,331	\$ (10,341)	\$ (4,609)	\$ 39,381
Earnings per share - Basic and Fully Diluted						
Net loss from continuing operations attributable to Holdings	\$ 51,788					\$ 36,559
Less: Distributions paid - Allocation Interests	23,779					23,779
Less: Effect of contribution based profit - Holding Event	2,862				— (1f)	2,862
Net loss from continuing operations attributable to common shares of Holdings	\$ 25,147					\$ 9,918
Basic and diluted weighted average shares outstanding	54,591					54,591
Basic and fully diluted loss per share attributable to Holdings - continuing operations	\$ 0.46					\$ 0.18

**Notes to Pro Forma Condensed Consolidated Financial Statements
(Unaudited)**

Pro forma information is intended to reflect the impact of the Clean Earth Disposition on the Company's historical financial position and results of operations, as adjusted for the disposition of Manitoba Harvest, which occurred in February 2019, through adjustments that are directly attributable to the transaction, that are factually supportable and, with respect to the pro forma statements of operations, that are expected to have a continuing impact. In order to accomplish this, the Company eliminated the historical results of Clean Earth from the Company's historical financial position and results of operations, as adjusted for the disposition of Manitoba Harvest. Clean Earth's historical operations, for the current and prior period, including the gain on sale, will be presented as discontinued operations for financial reporting purposes beginning with the Company's Quarterly Report on Form 10-Q for the three and six months ended June 30, 2019.

The information in Note 1 provides a description of the pro forma adjustments from each line item in the pro forma condensed financial statements together with information explaining how the amounts were derived or calculated.

Note 1 - Pro Forma Adjustments

Balance Sheet

The following adjustments correspond to those included in the unaudited condensed consolidated pro forma balance sheet as of March 31, 2019:

(1a) This adjustment reflects the cash proceeds from the Clean Earth Disposition, net of the assumed debt payoff as discussed in footnote **(1b)** below.

(1b) This adjustment represents the payoff of all debt outstanding under our revolving credit facility. The Company did not reflect the payoff of term debt.

(1c) This adjustment reflects the estimated gain on the Clean Earth Disposition as if the sale had occurred on March 31, 2019. This gain may not be representative of what will actually be recorded during the three and six months ended June 30, 2019.

Statement of Operations

The following adjustments correspond to those included in the unaudited condensed consolidated pro forma statement of operations for the three months ended March 31, 2019 and the years ended December 31, 2018, 2017 and 2016:

(1d) This adjustment reflects the effect of the Clean Earth disposition and repayment of the revolving credit facility on the Management fee paid to our Manager during each of the periods presented.

(1e) This adjustment reflects the payoff of the average revolver debt outstanding during the respective periods using proceeds from the Clean Earth Disposition. The effect of paying off all revolver debt was to reduce interest expense on the revolver debt for the periods presented and increase commitment (unused) fees associated with the revolver debt for the periods presented.

Earnings per Share

(1f) The Company uses the two-class method to compute basic and fully diluted earnings per share. The two-class method requires companies to allocate participating securities that have rights to earnings that otherwise would have been available only to common shareholders as a separate class of securities in calculating earnings per share. The following is a summary of the effect of Clean Earth Contribution Based Profit from a Holding Event that is reflected as an adjustment to the calculation of earnings per share:

	Three months ended		Years ended	
	March 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Less: Effect of contribution based profit - Clean Earth Holding Event	—	—	2,654	—