

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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
(State or other jurisdiction of
incorporation or organization)

001-34927
(Commission
file number)

57-6218917
(I.R.S. employer
identification number)

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

Delaware
(State or other jurisdiction of
incorporation or organization)

001-34926
(Commission
file number)

20-3812051
(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 beneficial interests in Compass Diversified Holdings	CODI PR A	New York Stock Exchange
Series B Preferred Shares representing beneficial interests in Compass Diversified Holdings	CODI PR B	New York Stock Exchange
Series C Preferred Shares representing beneficial interests 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 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 October 28, 2020, there were 64,900,000 Trust common shares of Compass Diversified Holdings outstanding.

COMPASS DIVERSIFIED HOLDINGS
QUARTERLY REPORT ON FORM 10-Q
For the period ended September 30, 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, as further amended.
- 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. All statements other than statements of historical or current fact are "forward-looking statements" for purposes of federal and state securities laws. Forward looking statements include, among other things, (i) statements as to our future performance or liquidity, such as expectations for our results of operation, net income, adjusted EBITDA, and ability to make quarterly distributions and (ii) our plans, strategies and objectives for future operations, including our planned capital expenditures. Forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of risks and uncertainties, such as those disclosed or incorporated by reference in our filings with the SEC, many of which are beyond our control. Important factors that could cause our actual results, performance and achievements to differ materially from those estimates or projections contained in our forward-looking statements include, 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;
- difficulties and delays in integrating, or business disruptions following, acquisitions or an inability to fully realize cost savings and other benefit related thereto;
- 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 legal and regulatory environment in which our businesses operate;
- trends in the industries in which our businesses operate;
- changes in general economic, political or business conditions or economic, political or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;
- risks associated with possible disruption in operations or the economy generally due to terrorism or natural disaster or social, civil or political unrest;
- 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**

<i>(in thousands)</i>	September 30, 2020	December 31, 2019
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 176,819	\$ 100,314
Accounts receivable, net	242,947	191,405
Inventories	344,036	317,306
Prepaid expenses and other current assets	36,873	35,247
Total current assets	800,675	644,272
Property, plant and equipment, net	155,601	146,428
Goodwill	508,464	438,519
Intangible assets, net	619,925	561,946
Other non-current assets	107,319	100,727
Total assets	\$ 2,191,984	\$ 1,891,892
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 98,192	\$ 70,089
Accrued expenses	151,279	108,768
Due to related party	9,283	8,049
Other current liabilities	25,022	22,573
Total current liabilities	283,776	209,479
Deferred income taxes	30,854	33,039
Long-term debt	592,107	394,445
Other non-current liabilities	94,554	89,054
Total liabilities	1,001,291	726,017
Commitments and contingencies		
Stockholders' equity		
Trust preferred shares, 50,000 authorized; 12,600 shares issued and outstanding at September 30, 2020 and December 31, 2019		
Series A preferred shares, no par value; 4,000 shares issued and outstanding at September 30, 2020 and December 31, 2019	96,417	96,417
Series B preferred shares, no par value; 4,000 shares issued and outstanding at September 30, 2020 and December 31, 2019	96,504	96,504
Series C preferred shares, no par value; 4,600 shares issued and outstanding at September 30, 2020 and December 31, 2019	110,997	110,997
Trust common shares, no par value, 500,000 authorized; 64,900 shares issued and outstanding at September 30, 2020 and 59,900 shares issued and outstanding at December 31, 2019	1,008,564	924,680
Accumulated other comprehensive loss	(4,447)	(3,933)
Accumulated deficit	(188,136)	(109,338)
Total stockholders' equity attributable to Holdings	1,119,899	1,115,327
Noncontrolling interest	70,794	50,548
Total stockholders' equity	1,190,693	1,165,875
Total liabilities and stockholders' equity	\$ 2,191,984	\$ 1,891,892

See notes to condensed consolidated financial statements.

COMPASS DIVERSIFIED HOLDINGS
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<i>(in thousands, except per share data)</i>	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net revenues	\$ 418,903	\$ 388,313	\$ 1,085,979	\$ 1,063,254
Cost of revenues	265,119	251,778	695,304	684,601
Gross profit	153,784	136,535	390,675	378,653
Operating expenses:				
Selling, general and administrative expense	93,036	82,027	260,850	243,736
Management fees	9,659	8,874	23,436	28,352
Amortization expense	15,222	13,520	43,506	40,632
Impairment expense	—	33,381	—	33,381
Operating income (loss)	35,867	(1,267)	62,883	32,552
Other income (expense):				
Interest expense, net	(12,351)	(11,525)	(32,122)	(48,424)
Loss on sale of securities (refer to Note C)	—	(4,893)	—	(10,193)
Amortization of debt issuance costs	(660)	(770)	(1,795)	(2,625)
Loss on debt extinguishment	—	(5,038)	—	(5,038)
Other income (expense), net	(447)	(689)	(2,172)	(1,213)
Income (loss) from continuing operations before income taxes	22,409	(24,182)	26,794	(34,941)
Provision for income taxes	1,606	4,400	8,477	10,375
Income (loss) from continuing operations	20,803	(28,582)	18,317	(45,316)
Income from discontinued operations, net of income tax	—	—	—	16,901
Gain on sale of discontinued operations	100	2,039	100	330,203
Net income (loss)	20,903	(26,543)	18,417	301,788
Less: Net income from continuing operations attributable to noncontrolling interest	1,717	1,242	4,003	3,997
Less: Net loss from discontinued operations attributable to noncontrolling interest	—	—	—	(266)
Net income (loss) attributable to Holdings	\$ 19,186	\$ (27,785)	\$ 14,414	\$ 298,057
Amounts attributable to Holdings				
Income (loss) from continuing operations	\$ 19,086	\$ (29,824)	\$ 14,314	\$ (49,313)
Income from discontinued operations, net of income tax	—	—	—	17,167
Gain on sale of discontinued operations, net of income tax	100	2,039	100	330,203
Net income (loss) attributable to Holdings	\$ 19,186	\$ (27,785)	\$ 14,414	\$ 298,057
Basic income (loss) per common share attributable to Holdings (refer to Note J)				
Continuing operations	\$ 0.08	\$ (1.33)	\$ (0.33)	\$ (1.95)
Discontinued operations	—	0.03	—	5.80
	\$ 0.08	\$ (1.30)	\$ (0.33)	\$ 3.85
Basic weighted average number of shares of common shares outstanding	64,900	59,900	62,556	59,900
Cash distributions declared per Trust common share (refer to Note J)	\$ 0.36	\$ 0.36	\$ 1.08	\$ 1.08

See notes to condensed consolidated financial statements.

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

<i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 20,903	\$ (26,543)	\$ 18,417	\$ 301,788
Other comprehensive income (loss)				
Foreign currency translation adjustments	913	(861)	(1,038)	(608)
Foreign currency amounts reclassified from accumulated other comprehensive income (loss) that increase net income:				
Disposition of Manitoba Harvest	—	—	—	4,791
Pension benefit liability, net	168	(690)	524	(1,470)
Other comprehensive income (loss)	1,081	(1,551)	(514)	2,713
Total comprehensive income (loss), net of tax	21,984	(28,094)	17,903	304,501
Less: Net income attributable to noncontrolling interests	1,717	1,242	4,003	3,731
Less: Other comprehensive income (loss) attributable to noncontrolling interests	39	(67)	16	(97)
Total comprehensive income (loss) attributable to Holdings, net of tax	\$ 20,228	\$ (29,269)	\$ 13,884	\$ 300,867

See notes to condensed consolidated financial statements.

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

(in thousands)

	Trust Preferred Shares			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
	Series A	Series B	Series C							
Balance — July 1, 2019	\$ 96,417	\$ 96,504	\$ —	\$ 924,680	\$ 17,715	\$ (4,512)	\$ 1,130,804	\$ 45,977	\$ —	\$ 1,176,781
Net income (loss)	—	—	—	—	(27,785)	—	(27,785)	1,242	—	(26,543)
Total comprehensive loss, net	—	—	—	—	—	(1,551)	(1,551)	—	—	(1,551)
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	—	936	—	936
Purchase of noncontrolling interest	—	—	—	—	—	—	—	(710)	—	(710)
Distributions paid - Allocation interests	—	—	—	—	(43,313)	—	(43,313)	—	—	(43,313)
Distributions paid - Trust Common Shares	—	—	—	—	(21,564)	—	(21,564)	—	—	(21,564)
Distributions paid - Trust Preferred Shares	—	—	—	—	(3,781)	—	(3,781)	—	—	(3,781)
Balance — September 30, 2019	<u>\$ 96,417</u>	<u>\$ 96,504</u>	<u>\$ —</u>	<u>\$ 924,680</u>	<u>\$ (78,728)</u>	<u>\$ (6,063)</u>	<u>\$ 1,032,810</u>	<u>\$ 47,445</u>	<u>\$ —</u>	<u>\$ 1,080,255</u>
Balance — July 1, 2020	\$ 96,417	\$ 96,504	\$ 110,997	\$ 1,008,588	\$ (177,912)	\$ (5,528)	\$ 1,129,066	\$ 67,816	\$ —	\$ 1,196,882
Net income	—	—	—	—	19,186	—	19,186	1,717	—	20,903
Total comprehensive income, net	—	—	—	—	—	1,081	1,081	—	—	1,081
Issuance of trust common shares, net of offering costs	—	—	—	(24)	—	—	(24)	—	—	(24)
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	—	2,171	—	2,171
Effect of subsidiary stock option exercise	—	—	—	—	—	—	—	2,203	—	2,203
Purchase of noncontrolling interest	—	—	—	—	—	—	—	(3,113)	—	(3,113)
Distributions paid - Trust Common Shares	—	—	—	—	(23,364)	—	(23,364)	—	—	(23,364)
Distributions paid - Trust Preferred Shares	—	—	—	—	(6,046)	—	(6,046)	—	—	(6,046)
Balance — September 30, 2020	<u>\$ 96,417</u>	<u>\$ 96,504</u>	<u>\$ 110,997</u>	<u>\$ 1,008,564</u>	<u>\$ (188,136)</u>	<u>\$ (4,447)</u>	<u>\$ 1,119,899</u>	<u>\$ 70,794</u>	<u>\$ —</u>	<u>\$ 1,190,693</u>

See notes to condensed consolidated financial statements.

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

(in thousands)

	Trust Preferred Shares			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
	Series A	Series B	Series C							
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)	—	—	—	—	298,057	—	298,057	3,997	(266)	301,788
Total comprehensive income, net	—	—	—	—	—	2,713	2,713	—	—	2,713
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	—	4,265	1,939	6,204
Effect of subsidiary stock option exercise	—	—	—	—	—	—	—	41	—	41
Purchase of noncontrolling interest	—	—	—	—	—	—	—	(780)	—	(780)
Disposition of Manitoba Harvest	—	—	—	—	—	—	—	—	(10,799)	(10,799)
Disposition of Clean Earth	—	—	—	—	—	—	—	—	(10,922)	(10,922)
Distributions paid - Allocation interests	—	—	—	—	(51,296)	—	(51,296)	—	—	(51,296)
Distributions paid - Trust Common Shares	—	—	—	—	(64,692)	—	(64,692)	—	—	(64,692)
Distributions paid - Trust Preferred Shares	—	—	—	—	(11,344)	—	(11,344)	—	—	(11,344)
Balance — September 30, 2019	<u>\$ 96,417</u>	<u>\$ 96,504</u>	<u>\$ —</u>	<u>\$ 924,680</u>	<u>\$ (78,728)</u>	<u>\$ (6,063)</u>	<u>\$ 1,032,810</u>	<u>\$ 47,445</u>	<u>\$ —</u>	<u>\$ 1,080,255</u>
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	—	—	—	—	14,414	—	14,414	4,003	—	18,417
Total comprehensive loss, net	—	—	—	—	—	(514)	(514)	—	—	(514)
Issuance of trust common shares, net of offering costs	—	—	—	83,884	—	—	83,884	—	—	83,884
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	—	—	6,116	—	6,116
Effect of subsidiary stock option exercise	—	—	—	—	—	—	—	2,456	—	2,456
Purchase of noncontrolling interest	—	—	—	—	—	—	—	(3,456)	—	(3,456)
Acquisition of Marucci Sports	—	—	—	—	—	—	—	11,127	—	11,127
Distributions paid - Allocation interests	—	—	—	—	(9,087)	—	(9,087)	—	—	(9,087)
Distributions paid - Trust Common Shares	—	—	—	—	(66,492)	—	(66,492)	—	—	(66,492)
Distributions paid - Trust Preferred Shares	—	—	—	—	(17,633)	—	(17,633)	—	—	(17,633)
Balance — September 30, 2020	<u>\$ 96,417</u>	<u>\$ 96,504</u>	<u>\$ 110,997</u>	<u>\$ 1,008,564</u>	<u>\$ (188,136)</u>	<u>\$ (4,447)</u>	<u>\$ 1,119,899</u>	<u>\$ 70,794</u>	<u>\$ —</u>	<u>\$ 1,190,693</u>

See notes to condensed consolidated financial statements.

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

<i>(in thousands)</i>	Nine months ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 18,417	\$ 301,788
Income from discontinued operations, net of income tax	—	16,901
Gain on sale of discontinued operations	100	330,203
Income (loss) from continuing operations	18,317	(45,316)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	25,692	24,628
Amortization expense	47,886	40,632
Impairment expense	—	33,381
Amortization of debt issuance costs, discount and premium	1,656	3,022
Unrealized loss on interest rate swap	—	3,486
Noncontrolling stockholder stock based compensation	6,116	4,265
Provision for loss on receivables	4,374	2,539
Deferred taxes	(3,352)	(2,208)
Loss on debt extinguishment	—	5,038
Other	1,776	853
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(42,163)	(19,187)
Inventories	(15,749)	(24,863)
Other current and non-current assets	(356)	(11,826)
Accounts payable and accrued expenses	68,675	27,278
Cash provided by operating activities - continuing operations	112,872	41,722
Cash used in operating activities - discontinued operations	—	(10,138)
Cash provided by operating activities	112,872	31,584
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(212,834)	—
Purchases of property and equipment	(20,065)	(21,964)
Payment of interest rate swap	—	(675)
Proceeds from sale of businesses	100	501,895
Other investing activities	(3,703)	1,673
Cash (used in) provided by investing activities - continuing operations	(236,502)	480,929
Cash provided by investing activities - discontinued operations	—	279,219
Cash (used in) provided by investing activities	(236,502)	760,148

<i>(in thousands)</i>	Nine months ended September 30,	
	2020	2019
Cash flows from financing activities:		
Proceeds from issuance of Trust common shares, net	83,884	—
Borrowings under credit facility	—	108,000
Repayments under credit facility	—	(533,500)
Proceeds from issuance of Senior Notes	202,000	—
Distributions paid - common shares	(66,492)	(64,692)
Distributions paid - preferred shares	(17,633)	(11,344)
Distributions paid - allocation interests	(9,087)	(51,296)
Net proceeds provided by noncontrolling shareholders - acquisition	11,127	—
Net proceeds provided by noncontrolling shareholders	252	41
Purchase of noncontrolling interest	(1,253)	(778)
Debt issuance costs	(3,214)	—
Other	811	(3,549)
Net cash provided by (used in) financing activities	<u>200,395</u>	<u>(557,118)</u>
Foreign currency impact on cash	(260)	(2,102)
Net increase in cash and cash equivalents	76,505	232,512
Cash and cash equivalents — beginning of period ⁽¹⁾	100,314	53,326
Cash and cash equivalents — end of period	<u>\$ 176,819</u>	<u>\$ 285,838</u>

⁽¹⁾ Includes cash from discontinued operations of \$4.6 million at January 1, 2019.

See notes to condensed consolidated financial statements.

COMPASS DIVERSIFIED HOLDINGS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2020

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 nine businesses, or reportable operating segments, at September 30, 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"), Marucci Sports, LLC ("Marucci Sports" or "Marucci"), 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 E - "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 and nine month periods ended September 30, 2020 and September 30, 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 and nine months ended September 30, 2019. Refer to [Note C - "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, trade receivables 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 — Acquisition

Acquisition of Marucci Sports, LLC

On April 20, 2020, pursuant to an Agreement and Plan of Merger entered into on March 6, 2020, the Company, through a wholly-owned subsidiary, Wheelhouse Holdings Inc., a Delaware corporation ("Buyer") and Wheelhouse Holdings Merger Sub LLC, a Delaware limited liability company and a wholly owned Subsidiary of Buyer ("Merger Sub"), completed a merger (the "Transaction") with Marucci Sports, LLC, a Delaware limited liability company ("Marucci"). Upon the completion of the Transaction, Marucci became a wholly owned subsidiary of Buyer and an indirect subsidiary of the Company. 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 Company made loans to, and purchased a 92.2% equity interest in, Marucci. The purchase price, including proceeds from noncontrolling shareholders and net of transaction costs, was \$198.9 million. Marucci management and certain existing shareholders invested in the Transaction along with the Company, representing 7.8% initial noncontrolling interest on both a primary and fully diluted basis. The fair value of the noncontrolling interest was determined based on the enterprise value of the acquired entity multiplied by the ratio of the number of shares acquired by the minority holders to total shares. The transaction was accounted for as a business combination. CGM acted as an advisor to the Company in the acquisition and will continue to provide integration services during the first year of the Company's ownership of Marucci. CGM will receive integration service fees of \$2.0 million payable quarterly over a twelve month period as services are rendered beginning in the quarter ended September 30, 2020. The Company incurred \$2.0 million of transaction costs in conjunction with the Marucci acquisition, which was included in selling, general and administrative expense in the consolidated statements of operations during the second quarter of 2020.

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

<i>(in thousands)</i>	Preliminary Purchase Price Allocation	Measurement Period Adjustments	Preliminary Purchase Price Allocation As of September 30, 2020
Assets			
Cash	2,730	—	2,730
Accounts Receivable ⁽¹⁾	11,471	—	11,471
Inventory ⁽²⁾	14,795	(314)	14,481
Property, plant and equipment ⁽³⁾	10,681	(374)	10,307
Intangible assets	99,249	—	99,249
Goodwill	67,733	238	67,971
Other current and noncurrent assets	956	1,252	2,208
Total Assets	207,615	802	208,417
Liabilities and noncontrolling interest			
Current liabilities	6,207	294	6,501
Other liabilities	42,100	958	43,058
Noncontrolling interest	11,127	—	11,127
Total liabilities and noncontrolling interest	59,434	1,252	60,686
Net assets acquired	148,181	(450)	147,731
Noncontrolling interest	11,127	—	11,127
Intercompany loans	42,100	—	42,100
	<u>\$ 201,408</u>	<u>\$ (450)</u>	<u>\$ 200,958</u>
Acquisition consideration			
Purchase price	\$ 200,000	\$ —	\$ 200,000
Cash acquired	3,750	(1,019)	2,731
Net working capital adjustment	158	569	727
Other adjustments	(2,500)	—	(2,500)
Total purchase consideration	<u>\$ 201,408</u>	<u>\$ (450)</u>	<u>\$ 200,958</u>
Less: Transaction costs	2,042	—	2,042
Net purchase price	<u>\$ 199,366</u>	<u>\$ (450)</u>	<u>\$ 198,916</u>

(1) Includes \$12.7 million in gross contractual accounts receivable, of which \$1.2 million is not expected to be collected. The fair value of accounts receivable approximates book value acquired.

(2) Includes \$4.3 million in inventory basis step-up, which will be charged to cost of goods sold. \$3.0 million was amortized to cost of goods sold in the second quarter of 2020, and \$1.3 million was charged to cost of goods sold in the third quarter of 2020.

(3) Includes \$2.5 million of property, plant and equipment basis step-up. The fair value of property, plant and equipment will be depreciated over the remaining useful lives of the assets.

The allocation of the purchase price presented above is based on management's estimate of the fair values using valuation techniques including the income, cost and market approach. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected future growth rates and estimated discount rates. Current and noncurrent assets and current and other liabilities are valued at historical carrying values. Property, plant and equipment is valued through a purchase price appraisal and will be depreciated on a straight-line basis over the respective remaining useful lives of the assets. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships, as well as expected future synergies. The goodwill of \$68.0 million reflects the strategic fit of Marucci

in the Company's branded consumer business and is expected to be deductible for income tax purposes. The purchase accounting for Marucci is expected to be finalized in the fourth quarter of 2020.

The intangible assets recorded related to the Marucci acquisition are as follows (in thousands):

Intangible Assets	Amount	Estimated Useful Life
Tradename	\$ 83,929	15 years
Customer relationships	11,120	15 years
Technology	4,200	15 years
	\$ 99,249	

The tradename was valued at \$83.9 million using a multi-period excess earnings methodology. The customer relationships intangible asset was valued at \$11.1 million using the distributor method, a variation of the multi-period excess earnings methodology, in which an asset is valuable to the extent it enables its owners to earn a return in excess of the required returns on the other assets utilized in the business. The technology was valued at \$4.2 million using a relief from royalty method.

Unaudited pro forma information

The following unaudited pro forma data for the three and nine months ended September 30, 2020 and 2019 gives effect to the acquisition of Marucci, as described above, as if the acquisition had been completed as of January 1, 2019. The pro forma data gives effect to historical operating results with adjustments to interest expense, amortization and depreciation expense, management fees and related tax effects. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transaction had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representing results for any future period.

<i>(in thousands, except per share data)</i>	Three months ended		Nine months ended	
	September 30, 2019		September 30, 2020	September 30, 2019
Net sales	\$ 403,259	\$	1,108,479	\$ 1,113,241
Gross profit	\$ 144,952	\$	403,105	\$ 405,477
Operating income	\$ (1,684)	\$	62,062	\$ 30,242
Net income (loss) from continuing operations	\$ (30,692)	\$	14,920	\$ (52,375)
Net income (loss) from continuing operations attributable to Holdings	\$ (31,958)	\$	10,957	\$ (56,383)
Basic and fully diluted net loss per share attributable to Holdings	\$ (1.37)	\$	(0.38)	\$ (2.07)

Other acquisitions

Foam Fabricators

On July 1, 2020, Foam Fabricators acquired substantially all of the assets of Polyfoam Corp. ("Polyfoam"), a Massachusetts-based manufacturer of protective and temperature-sensitive packaging solutions for the medical, pharmaceutical, grocery and food industries, among others. Founded in 1974, Polyfoam operates two manufacturing facilities producing highly engineered foam and injection-molded plastic solutions across a variety of end-markets. The acquisition complements Foam Fabricators' current operating footprint and provides access to a new customer base and product offerings, including Polyfoam's significant end-market exposure to cold chain (including seafood boxes, insulated shipping containers and grocery delivery totes). The purchase price was approximately \$12.8 million and includes a potential earnout of \$1.4 million if Polyfoam achieves certain financial metrics.

In September 2020, Foam Fabricators invested \$3.6 million in Rational Packaging, LLC, a designer and manufacturer of recyclable, paperboard-based structural packaging components. The investment will be accounted for as an equity method investment.

Note C — 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, 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 period January 1, 2019 through the date of disposition are as follows (in thousands):

	For the period January 1, 2019 through disposition	
Net sales	\$	132,737
Gross profit	\$	39,678
Operating income	\$	6,232
Income from continuing operations before income taxes	\$	5,880
Benefit for income taxes	\$	(11,607)
Income from discontinued operations ⁽¹⁾	\$	17,487

⁽¹⁾ The results of operations for the period from January 1, 2019 through the date of disposition excludes \$10.2 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 D — 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 - 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 and nine months ended September 30, 2020 and 2019 (in thousands):

Three months ended September 30, 2020										
	5.11	Ergo	Liberty	Marucci	Velocity	ACI	Arnold	Foam	Sterno	Total
United States	\$ 80,100	\$ 6,378	\$ 30,648	\$ 19,340	\$ 64,012	\$ 22,771	\$ 13,933	\$ 31,084	\$ 92,254	\$ 360,520
Canada	1,340	750	538	55	3,143	—	—	—	5,158	10,984
Europe	6,860	7,354	—	16	2,482	—	6,926	—	272	23,910
Asia Pacific	3,550	4,874	—	130	245	—	745	—	53	9,597
Other international	6,556	122	—	10	747	—	1,015	5,442	—	13,892
	<u>\$ 98,406</u>	<u>\$ 19,478</u>	<u>\$ 31,186</u>	<u>\$ 19,551</u>	<u>\$ 70,629</u>	<u>\$ 22,771</u>	<u>\$ 22,619</u>	<u>\$ 36,526</u>	<u>\$ 97,737</u>	<u>\$ 418,903</u>

Three months ended September 30, 2019									
	5.11	Ergo	Liberty	Velocity	ACI	Arnold	Foam	Sterno	Total
United States	\$ 77,783	\$ 6,505	\$ 24,061	\$ 42,126	\$ 21,897	\$ 18,227	\$ 25,833	\$ 105,260	\$ 321,692
Canada	1,897	906	668	1,981	—	153	—	4,145	9,750
Europe	7,504	6,951	—	1,420	—	9,758	—	447	26,080
Asia Pacific	2,429	8,820	—	239	—	1,678	—	1,565	14,731
Other international	8,440	136	—	881	—	1,079	5,471	53	16,060
	<u>\$ 98,053</u>	<u>\$ 23,318</u>	<u>\$ 24,729</u>	<u>\$ 46,647</u>	<u>\$ 21,897</u>	<u>\$ 30,895</u>	<u>\$ 31,304</u>	<u>\$ 111,470</u>	<u>\$ 388,313</u>

Nine months ended September 30, 2020										
	5.11	Ergo	Liberty	Marucci	Velocity	ACI	Arnold	Foam	Sterno	Total
United States	\$ 223,204	\$ 19,736	\$ 78,771	\$ 24,375	\$ 131,791	\$ 67,423	\$ 47,789	\$ 75,544	\$ 246,182	\$ 914,815
Canada	4,605	2,466	1,828	70	7,915	—	239	—	11,229	28,352
Europe	20,412	19,953	—	20	5,954	—	22,536	—	495	69,370
Asia Pacific	10,943	15,784	—	330	679	—	3,293	—	87	31,116
Other international	22,658	1,232	—	12	1,901	—	2,590	13,794	139	42,326
	<u>\$ 281,822</u>	<u>\$ 59,171</u>	<u>\$ 80,599</u>	<u>\$ 24,807</u>	<u>\$ 148,240</u>	<u>\$ 67,423</u>	<u>\$ 76,447</u>	<u>\$ 89,338</u>	<u>\$ 258,132</u>	<u>\$ 1,085,979</u>

Nine months ended September 30, 2019									
	5.11	Ergo	Liberty	Velocity	ACI	Arnold	Foam	Sterno	Total
United States	\$ 225,124	\$ 20,738	\$ 65,797	\$ 93,243	\$ 67,405	\$ 53,778	\$ 78,508	\$ 273,002	\$ 877,595
Canada	6,211	2,552	1,769	5,232	—	516	—	12,361	28,641
Europe	20,658	21,026	—	5,253	—	28,584	—	1,383	76,904
Asia Pacific	9,007	23,656	—	671	—	4,479	—	2,273	40,086
Other international	17,978	769	—	2,996	—	3,047	15,126	112	40,028
	<u>\$ 278,978</u>	<u>\$ 68,741</u>	<u>\$ 67,566</u>	<u>\$ 107,395</u>	<u>\$ 67,405</u>	<u>\$ 90,404</u>	<u>\$ 93,634</u>	<u>\$ 289,131</u>	<u>\$ 1,063,254</u>

Note E — Operating Segment Data

At September 30, 2020, the Company had nine 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.
- Marucci Sports is a leading designer, manufacturer, and marketer of premium wood and metal baseball bats, fielding gloves, batting gloves, bags, protective gear, sunglasses, on and off-field apparel, and other baseball and softball equipment used by professional and amateur athletes. Marucci also develops and licenses franchises for sports training facilities. Marucci is headquartered in Baton Rouge, Louisiana.
- 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. In July 2020, Foam Fabricators acquired the assets of Polyfoam, a Massachusetts-based manufacturer of protective and temperature-sensitive packaging solutions for the medical, pharmaceutical, grocery and food industries, among others. Foam Fabricators is headquartered in Scottsdale, Arizona and operates 14 molding and fabricating facilities across North America subsequent to the acquisition of Polyfoam.
- Sterno is a manufacturer and marketer of portable food warming systems, creative indoor and outdoor lighting, and home fragrance solutions for the foodservice industry and consumer markets. Sterno offers a broad range of wick and gel chafing systems, 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. 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 (in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
5.11	\$ 98,406	\$ 98,053	\$ 281,822	\$ 278,978
Ergobaby	19,478	23,318	59,171	68,741
Liberty	31,186	24,729	80,599	67,566
Marucci	19,551	—	24,807	—
Velocity Outdoor	70,629	46,647	148,240	107,395
ACI	22,771	21,897	67,423	67,405
Arnold	22,619	30,895	76,447	90,404
Foam Fabricators	36,526	31,304	89,338	93,634
Sterno	97,737	111,470	258,132	289,131
Total segment revenue	418,903	388,313	1,085,979	1,063,254
Corporate and other	—	—	—	—
Total consolidated revenues	\$ 418,903	\$ 388,313	\$ 1,085,979	\$ 1,063,254

Segment profit (loss) ⁽¹⁾ (in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
5.11	\$ 8,681	\$ 5,977	\$ 17,969	\$ 13,388
Ergobaby	2,363	3,220	5,943	9,151
Liberty	5,736	2,726	12,281	5,812
Marucci	1,265	—	(6,478)	—
Velocity Outdoor	11,062	(27,902)	13,896	(27,635)
ACI	6,205	6,122	18,272	19,087
Arnold	(495)	2,681	2,601	6,385
Foam Fabricators	4,759	4,141	11,118	12,011
Sterno	7,674	12,724	16,906	28,821
Total	47,250	9,689	92,508	67,020
Reconciliation of segment profit (loss) to consolidated income (loss) before income taxes:				
Interest expense, net	(12,351)	(11,525)	(32,122)	(48,424)
Other income (expense), net	(447)	(689)	(2,172)	(1,213)
Corporate and other ⁽²⁾	(12,043)	(21,657)	(31,420)	(52,324)
Total consolidated income (loss) before income taxes	\$ 22,409	\$ (24,182)	\$ 26,794	\$ (34,941)

⁽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 (in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
5.11	\$ 5,296	\$ 5,275	\$ 15,734	\$ 15,730
Ergobaby	2,038	2,319	6,129	6,543
Liberty	412	388	1,233	1,185
Marucci	3,281	—	7,968	—
Velocity Outdoor	3,120	3,217	9,480	9,757
ACI	595	525	1,867	1,717
Arnold	1,697	1,616	4,969	4,818
Foam Fabricators	3,304	3,044	9,286	9,054
Sterno	5,649	5,539	16,912	16,456
Total	25,392	21,923	73,578	65,260
Reconciliation of segment to consolidated total:				
Amortization of debt issuance costs, original issue discount and bond premium	577	863	1,656	3,022
Consolidated total	\$ 25,969	\$ 22,786	\$ 75,234	\$ 68,282

(in thousands)	Accounts Receivable		Identifiable Assets	
	September 30, 2020	December 31, 2019	September 30, 2020 ⁽¹⁾	December 31, 2019 ⁽¹⁾
5.11	\$ 48,791	\$ 49,543	\$ 364,195	\$ 357,292
Ergobaby	9,102	10,460	88,031	91,798
Liberty	17,387	13,574	37,050	38,558
Marucci	12,100	—	127,589	—
Velocity Outdoor	43,508	20,290	184,825	192,288
ACI	8,523	8,318	27,089	24,408
Arnold	15,819	19,043	71,731	72,650
Foam Fabricators	26,582	24,455	163,094	156,914
Sterno	78,360	60,522	247,946	263,530
Allowance for doubtful accounts	(17,225)	(14,800)	—	—
Total	242,947	191,405	1,311,550	1,197,438
Reconciliation of segment to consolidated total:				
Corporate and other identifiable assets	—	—	129,023	64,531
Consolidated total	\$ 242,947	\$ 191,405	\$ 1,440,573	\$ 1,261,969

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

Note F — Property, Plant and Equipment and Inventory

Property, plant and equipment

Property, plant and equipment is comprised of the following at September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Machinery and equipment	\$ 208,648	\$ 191,897
Furniture, fixtures and other	42,757	36,604
Leasehold improvements	45,224	40,851
Buildings and land	10,800	7,992
Construction in process	11,832	10,559
	319,261	287,903
Less: accumulated depreciation	(163,660)	(141,475)
Total	\$ 155,601	\$ 146,428

Depreciation expense was \$8.8 million and \$25.7 million for the three and nine months ended September 30, 2020 and \$8.4 million and \$24.6 million for the three and nine months ended September 30, 2019, respectively.

Inventory

Inventory is comprised of the following at September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Raw materials	\$ 72,873	\$ 59,888
Work-in-process	15,300	14,318
Finished goods	278,231	262,352
Less: obsolescence reserve	(22,368)	(19,252)
Total	\$ 344,036	\$ 317,306

Note G — 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 only on a qualitative basis 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 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 September 30, 2020 and December 31, 2019, is as follows (*in thousands*):

	Nine months ended September 30, 2020	Year ended December 31, 2019
Goodwill - gross carrying amount	\$ 566,209	\$ 496,264
Accumulated impairment losses	(57,745)	(57,745)
Goodwill - net carrying amount	<u>\$ 508,464</u>	<u>\$ 438,519</u>

The following is a reconciliation of the change in the carrying value of goodwill for the nine months ended September 30, 2020 by operating segment (*in thousands*):

	Balance at January 1, 2020	Acquisitions	Goodwill Impairment	Other	Balance at September 30, 2020
5.11	\$ 92,966	\$ —	\$ —	\$ —	\$ 92,966
Ergobaby	61,031	—	—	—	61,031
Liberty	32,828	—	—	—	32,828
Marucci	—	67,971	—	—	67,971
Velocity Outdoor	30,079	—	—	—	30,079
ACI	58,019	—	—	—	58,019
Arnold	26,903	—	—	—	26,903
Foam Fabricators	72,708	1,974	—	—	74,682
Sterno	55,336	—	—	—	55,336
Corporate ⁽¹⁾	8,649	—	—	—	8,649
Total	\$ 438,519	\$ 69,945	\$ —	\$ —	\$ 508,464

(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 September 30, 2020 and December 31, 2019 (*in thousands*):

	September 30, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 474,885	\$ (181,338)	\$ 293,547	\$ 462,686	\$ (155,200)	\$ 307,486
Technology and patents	84,862	(32,857)	52,005	80,082	(28,748)	51,334
Trade names, subject to amortization	273,556	(59,489)	214,067	189,183	(46,507)	142,676
Licensing and non-compete agreements	7,642	(7,321)	321	7,515	(7,050)	465
Distributor relations and other	726	(726)	—	726	(726)	—
Total	841,671	(281,731)	559,940	740,192	(238,231)	501,961
Trade names, not subject to amortization	59,985	—	59,985	59,985	—	59,985
Total intangibles, net	\$ 901,656	\$ (281,731)	\$ 619,925	\$ 800,177	\$ (238,231)	\$ 561,946

Amortization expense related to intangible assets was \$15.2 million and \$43.5 million for the three and nine months ended September 30, 2020, respectively and \$13.5 million and \$40.6 million for the three and nine months ended September 30, 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
	\$ 16,832	\$ 59,897	\$ 58,265	\$ 57,868	\$ 56,776

Note H — Warranties

The Company's Ergobaby, Liberty, Marucci 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 nine months ended September 30, 2020 and the year ended December 31, 2019 is as follows (*in thousands*):

Warranty liability	Nine months ended September 30, 2020	Year ended December 31, 2019
Beginning balance	\$ 1,583	\$ 1,624
Provision for warranties issued during the period	2,511	2,238
Fulfillment of warranty obligations	(2,307)	(2,279)
Other ⁽¹⁾	104	—
Ending balance	\$ 1,891	\$ 1,583

⁽¹⁾ Represents the warranty liability recorded in relation to the Marucci acquisition in April 2020.

Note I — 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.

Net availability under the 2018 Revolving Credit Facility was approximately \$598.8 million at September 30, 2020. Subsequent to the end of the quarter, the Company drew \$300 million on the 2018 Revolving Credit Facility to fund a portion of the purchase price of an acquisition. Letters of credit outstanding at September 30, 2020 totaled approximately \$1.2 million. At September 30, 2020, the Company was in compliance with all covenants as defined in the 2018 Credit Facility.

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 "Existing 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 Existing 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.

On May 7, 2020, the Company consummated the issuance and sale of \$200 million aggregate principal amount of its 8.000% Senior Notes due 2026 at an issue price of 101% (the "Additional Notes", and, together with the Existing Notes, the "Senior Notes"). The Additional Notes were issued under the Indenture between the Company and U.S. Bank National Association, as trustee. The proceeds from the Additional Notes were used to pay down the amount outstanding on the Company's 2018 Revolving Credit Facility. The Additional Notes were issued at 101% of par value and the resulting \$2 million premium will be amortized over the remaining term of the Additional Notes.

The Senior Notes bear interest at the rate of 8.000% per annum and will mature on May 1, 2026. Interest on the Senior Notes is payable in cash on May 1st and November 1st of each year. The first interest payment date on the Additional Notes will be November 1, 2020. The Senior 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 Senior 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 Senior 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 September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Senior Notes	\$ 600,000	\$ 400,000
Less: Unamortized premiums and debt issuance costs	(7,893)	(5,555)
Long term debt	<u>\$ 592,107</u>	<u>\$ 394,445</u>

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

	Maturity Date	Rate	Fair Value Hierarchy Level	September 30, 2020	
				Carrying Value	Fair Value
Senior Notes	May 1, 2026	8.000 %	2	600,000	630,000

Debt Issuance Costs

Deferred debt issuance costs represent the costs associated with the issuance of the Company's financing arrangements. In connection with the Additional Notes offering in May 2020, the Company recorded \$3.2 million in deferred financing costs.

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 condensed consolidated balance sheet. The debt issuance costs associated with the Senior Notes are classified as a reduction of long-term debt in the accompanying condensed consolidated balance sheet.

The following table summarizes unamortized premiums and debt issuance costs at September 30, 2020 and December 31, 2019, and the balance sheet classification in each of the periods presented (*in thousands*):

	September 30, 2020	December 31, 2019
Unamortized premiums and debt issuance costs	\$ 16,466	\$ 13,252
Accumulated amortization	(5,461)	(3,667)
Unamortized premiums and debt issuance costs, net	<u>\$ 11,005</u>	<u>\$ 9,585</u>
Balance sheet classification:		
Other noncurrent assets	\$ 3,112	\$ 4,030
Long-term debt	<u>7,893</u>	<u>5,555</u>
	<u>\$ 11,005</u>	<u>\$ 9,585</u>

Note J — Stockholders' Equity

Trust Common Shares

The Trust is authorized to issue 500,000,000 Trust common shares and the Company is authorized to issue a corresponding number of trust interests. The Company will at all times have the identical number of trust 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.

Secondary Offering

In May 2020, the Company completed an offering of 5,000,000 Trust common shares at a public offering price of \$17.60 per share. The net proceeds to the Company, after deducting the underwriter's discount and offering costs, totaled approximately \$83.9 million.

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 September 30, 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 September 30, 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 Holders 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. The ten-year anniversary of Ergo occurred in September 2020 which represented a Holding Event. The Holders elected to defer the distribution of \$2.0 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net income (loss) from continuing operations attributable to Holdings	\$ 19,086	\$ (29,824)	\$ 14,314	\$ (49,313)
Less: Distributions paid - Allocation Interests	—	43,313	9,087	51,296
Less: Distributions paid - Preferred Shares	6,046	3,781	17,633	11,344
Less: Accrued distributions - Preferred Shares	2,869	1,334	2,869	1,334
Net income (loss) from continuing operations attributable to common shares of Holdings	\$ 10,171	\$ (78,252)	\$ (15,275)	\$ (113,287)

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 and nine months ended September 30, 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 and nine months ended September 30, 2020 and 2019 attributable to the common shares of Holdings is calculated as follows (*in thousands, except per share data*):

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Income (loss) from continuing operations attributable to common shares of Holdings	\$ 10,171	\$ (78,252)	\$ (15,275)	\$ (113,287)
Less: Effect of contribution based profit - Holding Event	4,844	1,709	5,134	3,562
Income (loss) from continuing operations attributable to common shares of Holdings	\$ 5,327	\$ (79,961)	\$ (20,409)	\$ (116,849)
Income from discontinued operations attributable to Holdings	\$ 100	\$ 2,039	\$ 100	\$ 347,370
Less: Effect of contribution based profit - Holding Event	—	—	—	—
Income from discontinued operations attributable to common shares of Holdings	\$ 100	\$ 2,039	\$ 100	\$ 347,370
Basic and diluted weighted average common shares outstanding	64,900	59,900	62,556	59,900
Basic and fully diluted income (loss) per common share attributable to Holdings				
Continuing operations	\$ 0.08	\$ (1.33)	\$ (0.33)	\$ (1.95)
Discontinued operations	—	0.03	—	5.80
	\$ 0.08	\$ (1.30)	\$ (0.33)	\$ 3.85

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:				
July 1, 2020 - September 30, 2020 ⁽¹⁾	\$ 0.36	\$ 23,364	October 15, 2020	October 22, 2020
April 1, 2020 - June 30, 2020	\$ 0.36	\$ 23,364	July 16, 2020	July 23, 2020
January 1, 2020 - March 31, 2020	\$ 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:				
July 30, 2020 - September 29, 2020 ⁽¹⁾	\$ 0.453125	\$ 1,813	October 15, 2020	October 30, 2020
April 30, 2020 - July 29, 2020	\$ 0.453125	\$ 1,813	July 15, 2020	July 30, 2020
January 30, 2020 - April 29, 2020	\$ 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:				
July 30, 2020 - September 29, 2020 ⁽¹⁾	\$ 0.4921875	\$ 1,969	October 15, 2020	October 30, 2020
April 30, 2020 - July 29, 2020	\$ 0.4921875	\$ 1,969	July 15, 2020	July 30, 2020
January 30, 2020 - April 29, 2020	\$ 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:				
July 30, 2020 - September 29, 2020 ⁽¹⁾	\$ 0.4921875	\$ 2,264	October 15, 2020	October 30, 2020
April 30, 2020 - July 29, 2020	\$ 0.4921875	\$ 2,264	July 15, 2020	July 30, 2020
January 30, 2020 - April 29, 2020	\$ 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 October 1, 2020.

Note K — 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 September 30, 2020 and December 31, 2019:

	% Ownership ⁽¹⁾ September 30, 2020		% Ownership ⁽¹⁾ December 31, 2019	
	Primary	Fully Diluted	Primary	Fully Diluted
5.11	97.6	88.1	97.6	88.9
Ergobaby	81.4	72.6	81.9	75.8
Liberty	91.2	86.0	91.2	86.0
Marucci	92.2	83.8	N/a	N/a
Velocity Outdoor	99.3	88.0	99.3	93.9
ACI	69.3	65.4	69.4	65.4
Arnold	96.7	82.4	96.7	80.2
Foam Fabricators	100.0	91.5	100.0	91.5
Sterno	100.0	88.5	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.

<i>(in thousands)</i>	Noncontrolling Interest Balances	
	September 30, 2020	December 31, 2019
5.11	\$ 13,837	\$ 12,056
Ergobaby	27,207	27,036
Liberty	3,584	2,936
Marucci	11,069	—
Velocity Outdoor	3,767	2,506
ACI	7,587	3,670
Arnold	1,232	1,255
Foam Fabricators	2,644	1,873
Sterno	(233)	(884)
Allocation Interests	100	100
	<u>\$ 70,794</u>	<u>\$ 50,548</u>

Note L — Fair Value Measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at September 30, 2020 and December 31, 2019 *(in thousands)*:

	Fair Value Measurements at September 30, 2020			
	Carrying Value	Level 1	Level 2	Level 3
<i>Liabilities:</i>				
Put option of noncontrolling shareholders ⁽¹⁾	\$ (303)	\$ —	\$ —	\$ (303)
Total recorded at fair value	<u>\$ (303)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (303)</u>

⁽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
<i>Liabilities:</i>				
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 September 30, 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	(151)
Increase in the fair value of put option of noncontrolling shareholder - 5.11	(41)
Balance at September 30, 2020	\$ (303)

⁽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 September 30, 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 G – 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
	Carrying Value	Level 1	Level 2	Level 3	Year ended December 31, 2019
<i>(in thousands)</i>					
Goodwill - Velocity Outdoor	\$ 30,079	\$ —	\$ —	\$ 30,079	\$ 32,881

Note M — 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 nine months ended September 30, 2020 and 2019 is as follows:

	Nine months ended September 30,	
	2020	2019
United States Federal Statutory Rate	21.0 %	(21.0)%
State income taxes (net of Federal benefits)	5.0	4.4
Foreign income taxes	1.3	7.2
Expenses of Compass Group Diversified Holdings LLC representing a pass through to shareholders ⁽¹⁾	8.3	22.7
Impairment expense	—	15.7
Impact of subsidiary employee stock options	1.3	0.3
Credit utilization	(2.0)	(2.0)
Non-recognition of NOL carryforwards at subsidiaries	(5.1)	3.9
Effect of Tax Act	4.7	4.0
Other	(2.9)	(5.5)
Effective income tax rate	31.6 %	29.7 %

⁽¹⁾ The effective income tax rate for the nine months ended September 30, 2020 and 2019 includes a loss at the Company's parent, which is taxed as a partnership.

Note N — 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 \$4.9 million is recognized in the consolidated balance sheet as a component of other non-current liabilities at September 30, 2020. Net periodic benefit cost consists of the following for the three and nine months ended September 30, 2020 and 2019 (*in thousands*):

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Service cost	\$ 143	\$ 127	\$ 420	\$ 383
Interest cost	8	33	23	99
Expected return on plan assets	(21)	(39)	(62)	(119)
Amortization of unrecognized loss	58	35	171	104
Effect of curtailment	352	—	352	—
Net periodic benefit cost	\$ 540	\$ 156	\$ 904	\$ 467

During the third quarter of 2020, Arnold recognized a curtailment loss as a result of the termination of certain employees at the Switzerland location who were participants in the defined benefit plan. The termination of the employees resulted in a decrease in the accumulated benefit obligation liability and a curtailment loss of \$0.4 million. The curtailment loss was recognized in other comprehensive income during the three months ended September 30, 2020.

During the nine months ended September 30, 2020, per the terms of the pension agreement, Arnold contributed \$0.3 million to the plan. For the remainder of 2020, the expected contribution to the plan will be approximately \$0.1 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 September 30, 2020 were considered Level 3.

Note O - 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 September 30, 2020. In the three and nine months ended September 30, 2020, the Company recognized \$7.9 million and \$22.8 million, respectively, in expense related to operating leases in the condensed consolidated statements of operations.

The maturities of lease liabilities at September 30, 2020 were as follows (*in thousands*):

2020 (excluding nine months ended September 30, 2020)	\$	4,841
2021		27,334
2022		25,059
2023		18,180
2024		14,244
Thereafter		43,456
Total undiscounted lease payments	\$	133,114
Less: Interest		34,584
Present value of lease liabilities	\$	98,530

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 September 30, 2020:

<u>Lease Term and Discount Rate</u>	
Weighted-average remaining lease term (years)	6.05
Weighted-average discount rate	7.65 %

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

	Line Item in the Company's Consolidated Balance Sheet	September 30, 2020
Operating lease right-of-use assets	Other non-current assets	\$ 94,464
Current portion, operating lease liabilities	Other current liabilities	\$ 20,739
Operating lease liabilities	Other non-current liabilities	\$ 77,791

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

	Nine months ended September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 22,816
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 9,913

Note P — 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 C - 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, due to the unprecedented uncertainty as a result of the COVID-19 pandemic, CGM agreed to waive 50% of the management fee calculated at June 30, 2020 that was paid in July 2020. Further, for the third quarter of 2020, 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 September 30, 2020.

Integration Services Agreements

Marucci Sports, which was acquired in April 2020, 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. CGM will receive integration service fees of \$2.0 million payable quarterly over a twelve month period as services are rendered beginning in the quarter ended September 30, 2020. Foam Fabricators, which was acquired in 2018, entered into an ISA with CGM. 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 service fees are included in selling, general and administrative expense on the subsidiaries' statement of operations in the period in which they are incurred.

he 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. 5.11 purchased approximately \$0.7 million and \$2.3 million during the three and nine months ended September 30, 2020, respectively, and \$1.1 million and \$3.2 million, during the three and nine months ended September 30, 2019, respectively, in inventory from the vendor.

NOTE Q - SUBSEQUENT EVENT

On September 20, 2020, the Company, through its newly formed acquisition subsidiaries, BOA Holdings Inc., a Delaware corporation (“BOA Holdings”) and BOA Parent Inc., a Delaware corporation (“Buyer”) and a wholly-owned subsidiary of BOA Holdings, entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Reel Holding Corp., a Delaware corporation (“BOA”) and the sole stockholder of Boa Technology, Inc., BOA Merger Sub Inc., a Delaware corporation and a wholly-owned subsidiary of Buyer (“Merger Sub”), and Shareholder Representative Services LLC (in its capacity as the representative of the stockholders of BOA). Pursuant to the Merger Agreement, on October 16, 2020, Merger Sub was merged with and into BOA (the “Merger”) such that the separate existence of Merger Sub ceased, and BOA survived the Merger as a wholly-owned subsidiary of Buyer. BOA, creators of the award-winning BOA® Fit System featured in performance footwear, action sports, outdoor and medical products worldwide, was founded in 2001 and is headquartered in Denver, Colorado. The total purchase price for the acquisition of BOA was \$454 million (excluding working capital and certain other adjustments upon closing, and transaction costs). The Company funded the acquisition with cash on hand and a \$300 million draw on its 2018 Revolving Credit Facility. The Company's initial equity ownership in BOA is approximately 82%, as certain existing stockholders in BOA 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 nine businesses, or operating segments, at September 30, 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"), Marucci Sports, LLC ("Marucci" or Marucci Sports), 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 September 30, 2020 as follows:

Business	Acquisition Date	Ownership Interest - September 30, 2020	
		Primary	Diluted
Advanced Circuits	May 16, 2006	69.3%	65.4%
Liberty Safe	March 31, 2010	91.2%	86.0%
Ergobaby	September 16, 2010	81.4%	72.6%
Arnold	March 5, 2012	96.7%	82.4%
Sterno	October 10, 2014	100.0%	88.5%
5.11	August 31, 2016	97.6%	88.1%
Velocity Outdoor	June 2, 2017	99.3%	88.0%
Foam Fabricators	February 15, 2018	100.0%	91.5%
Marucci Sports	April 20, 2020	92.2%	83.8%

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. 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 - 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, 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. Liberty is headquartered in Payson, Utah.

Marucci Sports - Founded in 2009, Marucci is a leading designer, manufacturer, and marketer of premium wood and metal baseball bats, fielding gloves, batting gloves, bags, protective gear, sunglasses, on and off-field apparel, and other baseball and softball equipment used by professional and amateur athletes. Marucci also develops and licenses franchises for sports training facilities. Marucci is headquartered in Baton Rouge, Louisiana.

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. Advanced Circuits is headquartered in Aurora, Colorado.

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 14 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. In July 2020, Foam Fabricators acquired the assets of Polyfoam, a Massachusetts-based manufacturer

of protective and temperature-sensitive packaging solutions for the medical, pharmaceutical, grocery and food industries, among others.

Sterno - Sterno, headquartered in Corona, California, is the parent company of Sterno LLC ("Sterno Products"), Sterno Home Inc. ("Sterno Home"), and Rimports Inc. ("Rimports"). Sterno is a leading manufacturer and marketer of portable food warming systems, creative indoor and outdoor lighting, and home fragrance solutions for the foodservice industry and consumer markets. Sterno offers a broad range of wick and gel chafing systems, 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 and, during the third quarter of 2020, the COVID-19 pandemic continued to impact the Company. COVID-19 continues to spread throughout the United States and other countries across the world, and the duration, severity and ultimate impact on our business are currently unknown. The COVID-19 pandemic led to 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 enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19. The public health situation, global response measures and corresponding impacts on various markets remain fluid and uncertain. We continue to closely monitor the impact of the COVID-19 pandemic on all aspects of our business, including how it is impacting our customers, employees, supply chains, and distribution networks. We experienced and expect to continue to experience reductions in customer demand in certain of our niche industrial 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 decrease in foot traffic at many brick and mortar retail businesses may impact our operations for the remainder of 2020. The health of our team and various stakeholders is our highest priority, and we have taken multiple steps to provide support and a safe work environment.

Due to the unprecedented uncertainty as a result of the COVID-19 pandemic, in April 2020 CGM agreed to waive 50% of the second quarter management fee calculated at June 30, 2020 that was paid in July 2020. We continue to work 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.

2020 Outlook in Consideration of the COVID-19 Pandemic

The Company anticipates that COVID-19 will continue to have an impact on its results of operations for the remainder of 2020, including a decrease in operating income and Adjusted EBITDA as compared to the prior year at certain of our niche industrial businesses. 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. However, the diversification of our portfolio of businesses has allowed us to offset the decline in operating results from the COVID-19 pandemic experienced by some of our operating segments. Driven by the strong performance at our outdoor consumer brand products, 5.11, Liberty Safe and Velocity Outdoor, and our acquisition of Marucci Sports in April 2020, our consolidated operating income, net income, operating cash flows and Adjusted EBITDA increased in the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019.

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. In May 2020, the Company completed a share offering of five million Trust common shares resulting in net proceeds of \$83.9 million and issued an additional \$200 million in our 8% Senior Notes. The Company believes that it currently has adequate liquidity and capital resources to meet its existing obligations, and quarterly distributions to its shareholders, as, and if, approved by the Board of Directors, over the next twelve months. However, if the Company's operations are impacted more than expected during the 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

Sale of Trust Common Shares

In May 2020, the Company completed an offering of 5,000,000 Trust common shares at a public offering price of \$17.60 per share. The net proceeds to the Company, after deducting the underwriter's discount and offering costs, totaled approximately \$83.9 million.

Issuance of Senior Notes

On May 7, 2020, the Company consummated the issuance and sale of \$200 million aggregate principal amount of its 8.000% Senior Notes due 2026 (the "Additional Notes"). The proceeds from the Additional Notes were used to pay down the amount outstanding on the Company's 2018 Revolving Credit Facility.

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 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, 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 Wheelhouse Holdings Merger Sub LLC was to be merged with and into Marucci (the "Transaction") such that the separate existence of Wheelhouse Holdings Merger Sub LLC would cease, and Marucci would survive the Transaction 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 Transaction, 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.

Acquisition of Reel Holding Corp.

On September 20, 2020, the Company, through its newly formed acquisition subsidiaries, BOA Holdings Inc., a Delaware corporation ("BOA Holdings") and BOA Parent Inc., a Delaware corporation ("Buyer") and a wholly-owned subsidiary of BOA Holdings, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Reel Holding Corp., a Delaware corporation ("BOA") and the sole stockholder of Boa Technology, Inc., BOA Merger Sub Inc., a Delaware corporation and a wholly-owned subsidiary of Buyer ("Merger Sub"), and Shareholder Representative Services LLC (in its capacity as the representative of the stockholders of BOA). Pursuant to the Merger Agreement, on October 16, 2020, Merger Sub was merged with and into BOA (the "Merger") such that the separate existence of Merger Sub ceased, and BOA survived the Merger as a wholly-owned subsidiary of Buyer. BOA, creators of the award-winning BOA® Fit System featured in performance footwear, action sports, outdoor and medical products worldwide, was founded in 2001 and is headquartered in Denver, Colorado. The total purchase price for the acquisition of BOA was \$454 million (excluding working capital and certain other adjustments upon closing, and transaction costs). The Company funded the acquisition with cash on hand and a \$300 million draw on its 2018 Revolving Credit Facility. The Company's initial equity ownership in BOA is approximately 82%, as certain existing stockholders in BOA 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 and nine months ended September 30, 2020 and September 30, 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. For the acquisition of Marucci in April 2020, the pro forma results of operations for the Marucci business segment have been prepared as if we purchased that business on January 1, 2019. Where appropriate, relevant pro forma adjustments are reflected as part of the historical operating results of Marucci. We believe this is the most meaningful comparison for the operating results of acquired business segments. The consolidated results of operations reflect the operating results of Marucci from the date of acquisition.

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. The steps taken by governments to limit the spread of the virus had a negative impact on our operations in the second quarter; April and May saw a slowdown in revenue at several of our businesses, however, we experienced a rebound in June as localities began lifting restrictions. During the third quarter, some of our niche industrial businesses continued to be adversely impacted by the effect of the COVID-19 pandemic on the economy, while certain of our consumer businesses continued to experience solid demand.

The COVID-19 pandemic has had, and may continue to have, negative impacts on certain of our niche industrial businesses, results of operations, financial condition and cash flows in the near and medium term. COVID-19 continues to spread throughout the United States and other countries across the world, and the duration, severity and ultimate impact on our business are currently unknown. 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. 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 and nine months ended September 30, 2020 and 2019:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net revenues	\$ 418,903	\$ 388,313	\$ 1,085,979	\$ 1,063,254
Cost of revenues	265,119	251,778	695,304	684,601
Gross profit	153,784	136,535	390,675	378,653
Selling, general and administrative expense	93,036	82,027	260,850	243,736
Fees to manager	9,659	8,874	23,436	28,352
Amortization of intangibles	15,222	13,520	43,506	40,632
Impairment expense	—	33,381	—	33,381
Operating income (loss)	35,867	(1,267)	62,883	32,552
Interest expense	(12,351)	(11,525)	(32,122)	(48,424)
Amortization of debt issuance costs	(660)	(770)	(1,795)	(2,625)
Loss on sale of securities	—	(4,893)	—	(10,193)
Other income (expense)	(447)	(5,727)	(2,172)	(6,251)
Income (loss) from continuing operations before income taxes	22,409	(24,182)	26,794	(34,941)
Provision for income taxes	1,606	4,400	8,477	10,375
Income (loss) from continuing operations	\$ 20,803	\$ (28,582)	\$ 18,317	\$ (45,316)

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net revenues

On a consolidated basis, net revenues for the three months ended September 30, 2020 increased by approximately \$30.6 million, or 7.9%, compared to the corresponding period in 2019. During the three months ended September 30, 2020 compared to 2019, we saw significant increases in net sales at Liberty (\$6.5 million increase), Velocity Outdoor (\$24.0 million increase), and Foam Fabricators (\$5.2 million increase), while several of our other businesses saw a decrease in net sales resulting from the effects of the COVID-19 pandemic, notably Arnold (\$8.3 million decrease), and Sterno (\$13.7 million decrease). Our Marucci business, which we acquired in April 2020, contributed \$19.6 million in net revenue during the third quarter, while the increase in Foam Fabricator's net revenue for the quarter was primarily attributable to their acquisition of Polyfoam in July 2020. 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 increased approximately \$13.3 million during the three months ended September 30, 2020 compared to the corresponding period in 2019. Gross profit as a percentage of net revenues was approximately 36.7% in the three months ended September 30, 2020 compared to 35.2% in the three months ended September 30, 2019. We recognized \$1.3 million in expense related to the amortization of the inventory step-up resulting from our purchase price allocation of Marucci Sports during the quarter. Excluding the effect of the Marucci adjustment, gross profit as a percentage of net revenues was 37.0%. The increase in gross profit as a percentage of net sales in the quarter ended September 30, 2020 as compared to the quarter ended September 30, 2019 primarily related to the increase in net revenue at our branded consumer businesses, which have higher gross

margins than our niche industrial businesses. 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 \$11.0 million during the three months ended September 30, 2020, compared to the corresponding period in 2019. \$7.6 million of the increase is attributable to our Marucci business, which was acquired in the current year. 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 \$3.0 million in the third quarter of 2020 and \$3.3 million in the third 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 September 30, 2020, we incurred approximately \$9.7 million in management fees as compared to \$8.9 million in fees in the three months ended September 30, 2019. The increase in Management fees is attributable to our acquisition of Marucci in April 2020, partially offset by CGM waiving the portion of the management fee attributable to the cash balances held at the Company as of September 30, 2020.

Amortization expense

Amortization expense for the three months ended September 30, 2020 increased \$1.7 million as compared to the three months ended September 30, 2019 as a result of the amortization expense associated with the intangibles that were recognized in conjunction with the preliminary purchase price allocation for Marucci.

Impairment expense

In the third quarter of 2019, we performed interim impairment testing at our Velocity business as a result of operating results below forecasts as well as a re-forecast of the Velocity business in which planned earnings and revenue fell below the forecasts of prior periods. We recognized \$33.4 million in impairment expense in the quarter ended September 30, 2019 related to the Velocity interim impairment testing.

Interest expense

We recorded interest expense totaling \$12.4 million for the three months ended September 30, 2020 compared to \$11.5 million for the comparable period in 2019, an increase of \$0.8 million. The increase 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, offset by an increase in interest expense during the current quarter related to our issuance of an additional \$200 million in our 8.000% Senior Notes in May 2020.

Other income (expense)

For the quarter ended September 30, 2020, we recorded \$0.4 million in other expense as compared to \$5.7 million in other expense in the quarter ended September 30, 2019, a decrease in expense of \$5.3 million. In the prior year, we recognized \$5.0 million of expense related to the write-off of debt issuance costs due to the repayment of our 2018 Term Loan. Other income (expense) in the current quarter primarily reflects the movement in foreign currency at our businesses with international operations, and gains or (losses) realized on the sale of property, plant and equipment.

Income taxes

We had an income tax provision of \$1.6 million from continuing operations during the three months ended September 30, 2020 compared to an income tax provision of \$4.4 million from continuing operations during the same period in 2019. While our income from continuing operations before taxes for the quarter ended September 30, 2020 increased by approximately \$46.6 million as compared to the prior year quarter ended September 30, 2019, our tax provision decreased \$2.8 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.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net revenues

On a consolidated basis, net revenues for the nine months ended September 30, 2020 increased by approximately \$22.7 million, or 2.1%, compared to the corresponding period in 2019. During the nine months ended September 30, 2020 compared to 2019, we saw increases in net sales at 5.11 (\$2.8 million increase), Liberty (\$13.0 million increase), and Velocity (\$40.8 million increase), while our other businesses saw a decrease in net sales resulting primarily from the effects of the COVID-19 pandemic, notably Ergobaby (\$9.6 million decrease), (Arnold (\$14.0 million decrease), Foam Fabricators (\$4.3 million decrease) and Sterno (\$31.0 million decrease). Our Marucci business, which we acquired in April 2020, had net revenues of \$24.8 million since the date of acquisition. 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 increased approximately \$10.7 million during the nine months ended September 30, 2020 compared to the corresponding period in 2019. Gross profit as a percentage of net revenues was approximately 36.0% in the nine months ended September 30, 2020 compared to 35.6% in the nine months ended September 30, 2019. We recognized \$4.4 million in expense related to the amortization of the inventory step-up resulting from our purchase price allocation of Marucci Sports and Foam Fabricators' acquisition of Polyfoam during the nine months ended September 30, 2020. Excluding the effect of the amortization of inventory step-up, gross profit as a percentage of net revenues was 36.4%. 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 \$17.1 million during the nine months ended September 30, 2020, compared to the corresponding period in 2019. The increase in selling, general and administrative expense primarily relates to our acquisition of Marucci Sports during the second quarter. We incurred \$2.0 million in acquisition related expenses and Marucci incurred approximately \$11.7 million in selling, general and administrative expense during the period from acquisition through September 30, 2020, which includes \$0.5 million in integration service fees paid to CGM. 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 \$10.0 million in the first nine months of 2020 and \$9.7 million in the first nine months 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 nine months ended September 30, 2020, we incurred approximately \$23.4 million in management fees as compared to \$28.4 million in fees in the nine months ended September 30, 2019. Concurrent with the September 2019 sale of Clean Earth, CGM agreed to waive the management fee on cash balances held at the Company, commencing with the quarter ended September 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 agreed to waive 50% of the management fee calculated at June 30, 2020 that was paid in July 2020. Further, for the third quarter of 2020, 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 September 30, 2020. The result of these waivers was a decrease in the management fee during the

nine months ended September 30, 2020 as compared to the same period in the prior year, despite the addition of the Marucci business in April 2020.

Amortization expense

Amortization expense for the nine months ended September 30, 2020 increased \$2.9 million as compared to the nine months ended September 30, 2019 as a result of the amortization expense associated with the intangibles that were recognized in conjunction with the preliminary purchase price allocation for Marucci.

Impairment expense

In the third quarter of 2019, we performed interim impairment testing at our Velocity business as a result of operating results below forecasts as well as a re-forecast of the Velocity business in which planned earnings and revenue fell below the forecasts of prior periods. We recognized \$33.4 million in impairment expense in the quarter ended September 30, 2019 related to the Velocity interim impairment testing.

Interest expense

We recorded interest expense totaling \$32.1 million for the nine months ended September 30, 2020 compared to \$48.4 million for the comparable period in 2019, a decrease of \$16.3 million. The decrease in interest expense for the nine months ended September 30, 2020 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, offset by an increase in interest expense related to our issuance of an additional \$200 million of our 8.000% Senior Notes in May 2020.

Other income (expense)

For the nine months ended September 30, 2020, we recorded \$2.2 million in other expense as compared to \$6.3 million in other expense in the nine months ended September 30, 2019, an increase in income of \$4.1 million. In the prior year, we recognized \$5.0 million of expense related to the write-off of debt issuance costs due to the repayment of our 2018 Term Loan. Other income (expense) in the current year primarily reflects the movement in foreign currency at our businesses with international operations.

Income taxes

We had an income tax provision of \$8.5 million from continuing operations during the nine months ended September 30, 2020 compared to an income tax provision of \$10.4 million from continuing operations during the same period in 2019. While our income from continuing operations before taxes for the nine months ended September 30, 2020 increased by approximately \$61.7 million as compared to the nine months ended September 30, 2019, our tax provision decreased \$1.9 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. Our effective tax rate for the nine months ended September 30, 2020 was 31.6% as compared to an effective tax rate of 29.7% for the nine months ended September 30, 2019.

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 of the CARES ACT in the current year 2020, the CARES Act did not have a material impact on our consolidated financial statements. 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				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
Net sales	\$ 98,406	100.0 %	\$ 98,053	100.0 %	\$ 281,822	100.0 %	\$ 278,978	100.0 %
Gross profit	\$ 51,264	52.1 %	\$ 48,204	49.2 %	\$ 142,842	50.7 %	\$ 136,624	49.0 %
SG&A	\$ 40,147	40.8 %	\$ 39,791	40.6 %	\$ 117,564	41.7 %	\$ 115,927	41.6 %
Operating income	\$ 8,681	8.8 %	\$ 5,977	6.1 %	\$ 17,969	6.4 %	\$ 13,388	4.8 %

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net sales

Net sales for the three months ended September 30, 2020 were \$98.4 million as compared to net sales of \$98.1 million for the three months ended September 30, 2019, an increase of \$0.4 million, or 0.4%. This increase is due to growth in e-commerce sales and new stores sales offset by the effects of the COVID-19 pandemic on store traffic in our wholesale channels and our own retail stores.

Gross profit

Gross profit as a percentage of net sales was 52.1% in the three months ended September 30, 2020 as compared to 49.2% for the three months ended September 30, 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.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2020 was \$40.1 million, or 40.8% of net sales compared to \$39.8 million, or 40.6% of net sales for the comparable period in 2019. The increase in selling, general and administrative expense for the three months ended September 30, 2020 as compared to the prior year comparable period was driven by the costs associated with additional retail stores (seventy-one open in 2020 versus fifty-four open in 2019 during the comparable period), as well as additional sales and marketing spend to drive digital sales. This increase in expense was offset by management's decision to reduce variable expenses, including payroll, travel and entertainment, and sales and marketing, a response to potential decreased sales from the effects of the COVID-19 pandemic.

Income from operations

Income from operations for the three months ended September 30, 2020 was \$8.7 million, an increase of \$2.7 million when compared to income from operations of \$6.0 million for the same period in 2019, based on the factors described above.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net sales

Net sales for the nine months ended September 30, 2020 were \$281.8 million as compared to net sales of \$279.0 million for the nine months ended September 30, 2019, an increase of \$2.8 million, or 1.0%. This increase is due primarily to e-commerce sales growth of \$18.3 million, offset by the effect of COVID-19 pandemic on store traffic in both our wholesale channel and our own retail stores.

Gross profit

Gross profit as a percentage of net sales was 50.7% in the nine months ended September 30, 2020 as compared to 49.0% for the nine months ended September 30, 2019. Growth in gross margin was driven by channel mix as direct to consumer sales, which realize a higher gross margin than wholesale sales, grew versus the prior period. The growth in gross profit for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 was partially offset by additional inventory reserves and duty drawback accrual (increase in cost of goods sold) for audited duty drawback claims.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2020 was \$117.6 million, or 41.7% of net sales compared to \$115.9 million, or 41.6% of net sales for the comparable period in 2019. The increase in selling, general and administrative expense for the nine months ended September 30, 2020 as compared to the prior year comparable period was driven by the costs associated with additional retail stores (seventy-one open in 2020 versus fifty-four open in 2019 during the comparable period), as well as additional sales and marketing spend to drive digital sales.

Income from operations

Income from operations for the nine months ended September 30, 2020 was \$18.0 million, an increase of \$4.6 million when compared to income from operations of \$13.4 million for the same period in 2019, based on the factors described above.

Ergobaby

	Three months ended				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
Net sales	\$ 19,478	100.0 %	\$ 23,318	100.0 %	\$ 59,171	100.0 %	\$ 68,741	100.0 %
Gross profit	\$ 12,766	65.5 %	\$ 14,808	63.5 %	\$ 38,708	65.4 %	\$ 43,599	63.4 %
SG&A	\$ 8,447	43.4 %	\$ 9,634	41.3 %	\$ 26,897	45.5 %	\$ 28,593	41.6 %
Operating income	\$ 2,363	12.1 %	\$ 3,220	13.8 %	\$ 5,943	10.0 %	\$ 9,151	13.3 %

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net sales

Net sales for the three months ended September 30, 2020 were \$19.5 million, a decrease of \$3.8 million, or 16.5%, compared to the same period in 2019. During the three months ended September 30, 2020, international sales were approximately \$13.1 million, representing a decrease of \$3.7 million over the corresponding period in 2019, primarily as a result of reduced sales volume at Ergobaby's Asia-Pacific as a result of the COVID-19 pandemic. Domestic sales were \$6.4 million in the third quarter of 2020, reflecting a decrease of \$0.1 million compared to the corresponding period in 2019. The decrease in domestic sales was due to reduced sales through our retail and specialty account customers' stores as a result of COVID-19.

Gross profit

Gross profit as a percentage of net sales was 65.5% for the quarter ended September 30, 2020, as compared to 63.5% for the three months ended September 30, 2019. The increase in gross profit as a percentage of sales was due to the mix of products sold, reduced freight costs and the mix of sales channels.

Selling, general and administrative expense

Selling, general and administrative expense decreased \$1.2 million quarter over quarter, with expense of \$8.4 million, or 43.4% of net sales for the three months ended September 30, 2020 as compared to \$9.6 million or 41.3% of net sales for the same period of 2019. The decrease in selling, general and administrative expense in the three months ended September 30, 2020 as compared to the comparable period in the prior year is due to reduced travel costs, favorable foreign exchange rates in the current quarter and non-recurring expenses in the third quarter of 2019.

Income from operations

Income from operations for the three months ended September 30, 2020 decreased \$0.9 million, compared to the same period of 2019, based on the factors noted above.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net sales

Net sales for the nine months ended September 30, 2020 were \$59.2 million, a decrease of \$9.6 million, or 13.9%, compared to the same period in 2019. During the nine months ended September 30, 2020, international sales were approximately \$39.4 million, representing a decrease of \$8.6 million over the corresponding period in 2019, primarily as a result of reduced sales volume at Ergobaby's Asia-Pacific and EMEA distributors as a result of the COVID-19 pandemic. Domestic sales were \$19.7 million in the first nine months 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 65.4% for the nine months ended September 30, 2020, as compared to 63.4% for the nine months ended September 30, 2019. The increase in gross profit as a percentage of sales was due to the mix of products sold, reduced freight costs and the mix of sales channels during the nine months ended September 30, 2020.

Selling, general and administrative expense

Selling, general and administrative expense decreased \$1.7 million in the first nine months of 2020 as compared to the first nine months of 2019, with expense of \$26.9 million, or 45.5% of net sales for the nine months ended September 30, 2020 as compared to \$28.6 million or 41.6% of net sales for the same period of 2019. The decrease in selling, general and administrative expense in the nine months ended September 30, 2020 as compared to the comparable period in the prior year is a result of decreases in selling expenses, a reduction in variable expenses in response to the COVID-19 pandemic and non-recurring expenses in the nine months ended September 30, 2019.

Income from operations

Income from operations for the nine months ended September 30, 2020 decreased \$3.2 million, compared to the same period of 2019, based on the factors noted above.

Liberty Safe

	Three months ended				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
Net sales	\$ 31,186	100.0 %	\$ 24,729	100.0 %	\$ 80,599	100.0 %	\$ 67,566	100.0 %
Gross profit	\$ 8,111	26.0 %	\$ 5,701	23.1 %	\$ 21,058	26.1 %	\$ 14,771	21.9 %
SG&A	\$ 2,250	7.2 %	\$ 2,850	11.5 %	\$ 8,402	10.4 %	\$ 8,560	12.7 %
Operating income	\$ 5,736	18.4 %	\$ 2,726	11.0 %	\$ 12,281	15.2 %	\$ 5,812	8.6 %

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net sales

Net sales for the quarter ended September 30, 2020 increased approximately \$6.5 million, or 26.1%, to \$31.2 million, compared to the corresponding quarter ended September 30, 2019. Non-Dealer sales were approximately \$15.4 million in the three months ended September 30, 2020 as compared to \$15.2 million in the quarter ended September 30, 2019. The increase in Non-Dealer sales of \$0.2 million or 1.3% is attributable to the continued strong performance at sporting goods retailers, which more than offset a decline in net sales in the Farm and Fleet account category during the quarter as a result of sell in of product to a new large Farm and Fleet customer in the third quarter of 2019. Dealer sales totaled approximately \$15.8 million in the three months ended September 30, 2020 compared to \$9.5 million in the same period in 2019, representing an increase of \$6.3 million or 66.3%. The increase in Dealer sales reflects the higher demand for safes that we believe correlate to a large increase in firearm purchases over the prior year.

Gross profit

Gross profit as a percentage of net sales totaled approximately 26.0% and 23.1% for the quarters ended September 30, 2020 and September 30, 2019, respectively. The increase in gross profit as a percentage of net sales during the three months ended September 30, 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 third quarter of 2020 as compared to the third 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 \$2.3 million for the three months ended September 30, 2020 as compared to \$2.9 million in selling, general and administrative expense in the three months ended September 30, 2019. The decrease in selling, general and administrative expense in the third quarter of 2020 is due to spending reductions in advertising and promotion in an effort to manage demand for safes. Selling, general and administrative expense represented 7.2% of net sales in the three months ended September 30, 2020 and 11.5% of net sales for the same period of 2019.

Income from operations

Income from operations increased during the three months ended September 30, 2020 to \$5.7 million, as compared to \$2.7 million in the corresponding period in 2019. This increase was a result of the factors noted above.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net sales

Net sales for the nine months ended September 30, 2020 increased approximately \$13.0 million, or 19.3%, to \$80.6 million, compared to the nine months ended September 30, 2019. Non-Dealer sales were approximately \$36.6 million in the nine months ended September 30, 2020 as compared to \$31.0 million in the nine months ended September 30, 2019. The increase in Non-Dealer sales of \$5.6 million or 18.1% is attributable to a new customer in the Farm and Fleet channel as well as increased sales at sporting goods retailers during 2020, despite the shutdown of retail stores resulting from stay at home orders issued by local governments. Dealer sales totaled approximately \$44.0 million in the nine months ended September 30, 2020 compared to \$36.6 million in the same period in 2019, representing an increase of \$7.4 million or 20.2%. The increase in Dealer sales reflects the higher demand for safes that we believe correlate to a large increase in firearm purchases over the prior year.

Gross profit

Gross profit as a percentage of net sales totaled approximately 26.1% and 21.9% for the nine months ended September 30, 2020 and September 30, 2019, respectively. The increase in gross profit as a percentage of net sales during the nine months ended September 30, 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 nine months of 2020 as compared to the first nine months 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 \$8.4 million for the nine months ended September 30, 2020 compared to \$8.6 million for the nine months ended September 30, 2019. Selling, general and administrative expense represented 10.4% of net sales in the nine months ended September 30, 2020 and 12.7% of net sales for the nine months ended September 30, 2019.

Income from operations

Income from operations increased during the nine months ended September 30, 2020 to \$12.3 million, as compared to \$5.8 million in the corresponding period in 2019. This increase was a result of the factors noted above.

Marucci Sports

In the following results of operations, we provide comparative pro forma results of operations for Marucci for the three and nine months ended September 30, 2020 and 2019 as if we had acquired the business on January 1, 2019. The results of operations that follows include relevant pro-forma adjustments for pre-acquisition periods and

explanations where applicable. The operating results for Marucci have been included in the consolidated results of operation from the date of acquisition through September 30, 2020.

	Three months ended				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
		Pro forma		Pro forma		Pro forma		Pro forma
Net sales	\$ 19,551	100.0 %	\$ 14,946	100.0 %	\$ 47,308	100.0 %	\$ 49,987	105.7 %
Gross profit	\$ 10,688	54.7 %	\$ 8,417	56.3 %	\$ 22,843	48.3 %	\$ 26,823	53.7 %
SG&A	\$ 7,612	38.9 %	\$ 6,180	41.3 %	\$ 23,607	49.9 %	\$ 21,171	42.4 %
Amortization expense	\$ 1,686	8.6 %	\$ 1,654	11.1 %	\$ 4,996	10.6 %	\$ 4,962	9.9 %
Operating income (loss)	\$ 1,265	6.5 %	\$ 458	3.1 %	\$ (6,135)	(13.0)%	\$ 315	0.6 %

Pro forma results of operations include the following pro form adjustments as if we had acquired Marucci January 1, 2019:

- Depreciation expense associated with the increase in depreciable lives of capital assets of \$0.2 million for the nine months ended September 30, 2020, and \$0.2 million and \$0.7 million, respectively, for the three and nine months ended September 30, 2019.
- Amortization expense associated with the intangible assets recorded in connection with the purchase price allocation for Marucci of \$1.2 million for the nine months ended September 30, 2020, and \$1.5 million and \$4.6 million, respectively, for the three and nine months ended September 30, 2019.
- Management fees that would have been payable to the Manager during each period.

Three months ended September 30, 2020 compared to pro forma three months ended September 30, 2019

Net sales

Net sales for the three months ended September 30, 2020 were \$19.6 million, an increase of \$4.6 million as compared to net sales of \$14.9 million for the three months ended September 30, 2019. The increase in net sales during the three months ended September 30, 2020 was primarily due to Marucci's launch of its CAT9 line of aluminum and composite bats during the third quarter of 2020. Following the economic slowdown resulting from COVID-19 pandemic, baseball participation returned sooner than expected, which also contributed to the increase in sales period over period.

Gross profit

Gross profit for the quarter ended September 30, 2020 increased \$2.3 million as compared to the three months ended September 30, 2019. The cost of sales for the three months ended September 30, 2020 includes \$1.3 million related to the amortization of the inventory step-up resulting from the acquisition purchase price allocation. Excluding the effect of the inventory step-up, the gross profit as a percentage of net sales for the three months ended September 30, 2020 was 61.1%, as compared to gross profit as a percentage of sales of 56.3% for the three months ended September 30, 2019.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2020 was \$7.6 million, or 38.9% of net sales compared to \$6.2 million, or 41.3% of net sales for the three months ended September 30, 2019. Selling, general and administrative expense for the three months ended September 30, 2020 includes \$0.5 million in integration service fees paid to CGM. The remainder of the increase in selling, general and administrative expense for the three months ended September 30, 2020 correlates to the increase in net sales, with increases in credit card expenses, royalties, commissions, business development fees, and other variable expenses.

Income from operations

Income from operations for the three months ended September 30, 2020 was \$1.3 million, an increase of \$0.8 million when compared to income from operations of \$0.5 million for the same period in 2019, primarily as a result of the factors noted above.

Pro forma nine months ended September 30, 2020 compared to pro forma nine months ended September 30, 2019

Net sales

Net sales for the nine months ended September 30, 2020 were \$47.3 million, a decrease of \$2.7 million as compared to net sales of \$50.0 million for the nine months ended September 30, 2019. During 2020, Marucci was affected by the economic slowdown resulting from the COVID-19 pandemic with baseball and softball seasons postponed in the spring and early summer throughout much of the United States. Marucci's "brick and mortar" retail partners were forced to close as a result of the pandemic thus Marucci did not receive fill-in orders during this period. As a result, sales of aluminum and wood bats were significantly less in the first and second quarter of 2020 when compared to the same period last year. Additionally, Major League Baseball postponed their season eliminating the need for wood bats to be purchased for the professional season. During June 2020, Marucci began to see demand pick up as the baseball and softball seasons began and in August 2020, the Company launched its CAT9 line of aluminum and composite bats. With the success of this launch, the demand pickup continued during the third quarter of 2020.

Gross profit

Gross profit for the nine months ended September 30, 2020 decreased \$4.0 million as compared to the nine months ended September 30, 2019. Gross profit as a percentage of sales was 48.3% for the nine months ended September 30, 2020 as compared to 53.7% for the nine months ended September 30, 2019. The cost of sales for the nine months ended September 30, 2020 includes \$4.3 million related to the amortization of inventory step-up resulting from the acquisition purchase price allocation. Excluding the effect of the inventory step-up, the gross profit as a percentage of net sales for the nine months ended September 30, 2020 was 57.3%.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2020 was \$23.6 million, or 49.9% of net sales compared to \$21.2 million, or 42.4% of net sales for the nine months ended September 30, 2019. Selling, general and administrative expense for the nine months ended September 30, 2020 includes \$2.0 million in acquisition related costs that were expensed at the close of the Marucci acquisition, and \$0.5 million in integration service fees paid to CGM. Excluding the effect of the acquisition costs and integration service fees, selling, general and administrative expense for the nine months ended September 30, 2020 was \$21.1 million, which is consistent with the expense in the nine months ended September 30, 2019.

Loss (income) from operations

Loss from operations for the nine months ended September 30, 2020 was \$6.1 million, a decrease of \$6.5 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.

Velocity Outdoor

	Three months ended				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
Net sales	\$ 70,629	100.0 %	\$ 46,647	100.0 %	\$ 148,240	100.0 %	\$ 107,395	100.0 %
Gross profit	\$ 23,680	33.5 %	\$ 13,633	29.2 %	\$ 44,433	30.0 %	\$ 30,451	28.4 %
SG&A	\$ 10,210	14.5 %	\$ 5,747	12.3 %	\$ 23,313	15.7 %	\$ 17,491	16.3 %
Impairment expense	\$ —	— %	\$ 33,381	71.6 %	\$ —	— %	\$ 33,381	31.1 %
Operating income (loss)	\$ 11,062	15.7 %	\$ (27,902)	(59.8)%	\$ 13,896	9.4 %	\$ (27,635)	(25.7)%

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net sales

Net sales for the three months ended September 30, 2020 were \$70.6 million, an increase of \$24.0 million or 51.4%, compared to the same period in 2019. The increase in net sales for the three months ended September 30, 2020 is primarily due to significant increase in consumer demand for our Crosman products along with new crossbows being launched by our Ravin product line.

Gross profit

Gross profit for the quarter ended September 30, 2020 increased \$10.0 million as compared to the quarter ended September 30, 2019. Gross profit as a percentage of net sales was 33.5% for the three months ended September 30, 2020 as compared to 29.2% in the three months ended September 30, 2019. The increase in gross profit as a percentage of net sales was primarily attributable to favorable sales product mix of airguns, archery equipment and consumables.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2020 was \$10.2 million, or 14.5% of net sales compared to \$5.7 million, or 12.3% of net sales for the three months ended September 30, 2019. The increase in selling, general and administrative expense for the three months ended September 30, 2020 is primarily related to volume driven expenses that correlate to the increase in sales, as well as additional investments in marketing.

Income (loss) from operations

Income from operations for the three months ended September 30, 2020 was \$11.1 million, an increase of \$39.0 million when compared to loss from operations of \$27.9 million for the same period in 2019. Velocity recognized impairment expense of \$33.4 million in the third quarter of 2019 after determining that interim impairment testing was necessary in the prior year. The increase in operating income in the three months ended September 30, 2020 reflects the factors noted above, and the effect of the impairment expense on the operating income for the three months ended September 30, 2019.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net sales

Net sales for the nine months ended September 30, 2020 were \$148.2 million, an increase of \$40.8 million or 38.0%, compared to the same period in 2019. The increase in net sales for the nine months ended September 30, 2020 is due to a significant increase in customer demand that we have experienced in the current year reflecting consumer focus on outdoor branded products, as well as the introduction of several new products during 2020.

Gross profit

Gross profit for the nine months ended September 30, 2020 increased \$14.0 million as compared to the nine months ended September 30, 2019. Gross profit as a percentage of net sales was 30.0% for the nine months ended September 30, 2020 as compared to 28.4% in the nine months ended September 30, 2019. The increase in gross profit as a percentage of net sales was primarily attributable to product and customer mix.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2020 was \$23.3 million, or 15.7% of net sales compared to \$17.5 million, or 16.3% of net sales for the nine months ended September 30, 2019. The increase in selling, general and administrative expense for the nine months ended September 30, 2020 is primarily related to volume driven expenses that correlate to the increase in sales, as well as additional investments in marketing.

Income from operations

Income from operations for the nine months ended September 30, 2020 was \$13.9 million, an increase of \$41.5 million when compared to loss from operations of \$27.6 million for the same period in 2019. Velocity recognized impairment expense of \$33.4 million in the third quarter of 2019 after determining that interim impairment testing was necessary in the prior year. The increase in operating income in the nine months ended September 30, 2020

reflects the factors noted above, and the effect of the impairment expense on the operating income for the nine months ended September 30, 2019.

Niche Industrial Businesses

Advanced Circuits

	Three months ended				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
Net sales	\$ 22,771	100.0 %	\$ 21,897	100.0 %	\$ 67,423	100.0 %	\$ 67,405	100.0 %
Gross profit	\$ 10,252	45.0 %	\$ 9,964	45.5 %	\$ 30,360	45.0 %	\$ 31,029	46.0 %
SG&A	\$ 3,853	16.9 %	\$ 3,627	16.6 %	\$ 11,490	17.0 %	\$ 11,155	16.5 %
Operating income	\$ 6,205	27.2 %	\$ 6,122	28.0 %	\$ 18,272	27.1 %	\$ 19,087	28.3 %

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net sales

Net sales for the three months ended September 30, 2020 were \$22.8 million, an increase of approximately \$0.9 million or 4.0% compared to the three months ended September 30, 2019. The increase in net sales in the quarter ended September 30, 2020 as compared to the quarter ended September 30, 2019 was primarily attributable to increased sales in Quick-Turn Production by approximately \$0.9 million, Quick-Turn Small-Run by approximately \$0.3 million, Subcontract by approximately \$0.5 million, and decreased promotional allowances of approximately \$0.1 million, partially offset by decreases in Assembly of approximately \$0.7 million, and Long-Lead Time PCBs by approximately \$0.3 million.

Gross profit

Gross profit as a percentage of net sales decreased 50 basis points during the three months ended September 30, 2020 compared to the corresponding period in 2019 (45.0% at September 30, 2020 compared to 45.5% at September 30, 2019) primarily as a result of sales mix.

Selling, general and administrative expense

Selling, general and administrative expense was approximately \$3.9 million in the three months ended September 30, 2020 as compared to \$3.6 million for the three months ended September 30, 2019. Selling, general and administrative expense represented 16.9% of net sales for the three months ended September 30, 2020 and 16.6% of net sales in the corresponding period in 2019.

Income from operations

Income from operations for the three months ended September 30, 2020 was approximately \$6.2 million compared to \$6.1 million in the same period in 2019, an increase of approximately \$0.1 million, principally as a result of the factors described above.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net sales

Net sales for the both the nine months ended September 30, 2020 and the nine months ended September 30, 2019 were \$67.4 million. For the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019, Quick-Turn Production increased by approximately \$1.4 million, Subcontract increased by approximately \$0.1 million, and promotional allowances decreased by approximately \$0.6 million. This was offset by decreases in Assembly of approximately \$1.3 million, Long-Lead Time of approximately \$0.6 million, and Quick-Turn Small-Run by approximately \$0.1 million.

Gross profit

Gross profit as a percentage of net sales decreased 100 basis points during the nine months ended September 30, 2020 compared to the corresponding period in 2019 (45.0% for the nine months ended September 30, 2020 compared to 46.0% for the nine months September 30, 2019) primarily as a result of sales mix.

Selling, general and administrative expense

Selling, general and administrative expense was approximately \$11.5 million in the nine months ended September 30, 2020 as compared to \$11.2 million and the nine months ended September 30, 2019. Selling, general and administrative expense represented 17.0% of net sales for the nine months ended September 30, 2020 compared to 16.5% of net sales in the corresponding period in 2019.

Income from operations

Income from operations for the nine months ended September 30, 2020 was approximately \$18.3 million compared to \$19.1 million in the same period in 2019, a decrease of approximately \$0.8 million, principally as a result of the factors described above.

Arnold

	Three months ended				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
Net sales	\$ 22,619	100.0 %	\$ 30,895	100.0 %	\$ 76,447	100.0 %	\$ 90,404	100.0 %
Gross profit	\$ 4,989	22.1 %	\$ 8,334	27.0 %	\$ 19,051	24.9 %	\$ 23,425	25.9 %
SG&A	\$ 4,549	20.1 %	\$ 4,718	15.3 %	\$ 13,645	17.8 %	\$ 14,205	15.7 %
Operating income (loss)	\$ (495)	(2.2)%	\$ 2,681	8.7 %	\$ 2,601	3.4 %	\$ 6,385	7.1 %

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net sales

Net sales for the three months ended September 30, 2020 were approximately \$22.6 million, a decrease of \$8.3 million compared to the same period in 2019. International sales were \$8.7 million in the three months ended September 30, 2020 and \$12.7 million in the three months ended September 30, 2019. The decrease in net sales is primarily a result of softness in the commercial aerospace, oil and gas and advertising specialty markets caused by the global COVID-19 pandemic.

Gross profit

Gross profit for the three months ended September 30, 2020 was approximately \$5.0 million compared to approximately \$8.3 million in the same period of 2019. Gross profit as a percentage of net sales decreased to 22.1% for the quarter ended September 30, 2020 from 27.0% in the quarter ended September 30, 2019 principally due to the lower volume in the markets as noted above, partially offset by improved operating efficiencies.

Selling, general and administrative expense

Selling, general and administrative expense in the three month period ended September 30, 2020 was \$4.5 million, a decrease in expense of approximately \$0.2 million compared to \$4.7 million for the three months ended September 30, 2019. The decrease in selling, general and administrative expense was due to lower staffing related costs and lower travel and meeting expense partially offset by increased redundancy costs and pension costs as well as increased legal expenses. Selling, general and administrative expense was 20.1% of net sales in the three months ended September 30, 2020 and 15.3% in the three months ended September 30, 2019 due to the lower sales volume.

Income (loss) from operations

Loss from operations for the three months ended September 30, 2020 was approximately \$0.5 million, a decrease of \$3.2 million when compared to the same period in 2019, as a result of the factors noted above.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net sales

Net sales for the nine months ended September 30, 2020 were approximately \$76.4 million, a decrease of \$14.0 million compared to the same period in 2019. International sales were \$28.7 million in the nine months ended September 30, 2020 and \$36.6 million in the nine months ended September 30, 2019. The decrease in net sales is

primarily a result of softness in the commercial aerospace, oil and gas and advertising specialty markets caused by the global COVID-19 pandemic.

Gross profit

Gross profit for the nine months ended September 30, 2020 was approximately \$19.1 million compared to approximately \$23.4 million in the same period of 2019. Gross profit as a percentage of net sales decreased to 24.9% for the nine months ended September 30, 2020 from 25.9% in the nine months ended September 30, 2019 principally due to product mix, partially offset by improved operating efficiencies.

Selling, general and administrative expense

Selling, general and administrative expense in the nine month period ended September 30, 2020 was \$13.6 million, a decrease in expense of approximately \$0.6 million compared to \$14.2 million for the nine months ended September 30, 2019. The decrease in selling, general and administrative expense was due to lower staffing related costs and lower travel and meeting expense partially offset by increased redundancy costs, bad debt reserves due to the adoption of the new credit loss accounting standard and increased legal expenses. Selling, general and administrative expense was 17.8% of net sales in the nine months ended September 30, 2020 and 15.7% in the nine months ended September 30, 2019 due to the lower sales volume.

Income from operations

Income from operations for the nine months ended September 30, 2020 was approximately \$2.6 million, a decrease of \$3.8 million when compared to the same period in 2019, as a result of the factors noted above.

Foam Fabricators

	Three months ended				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
Net sales	\$ 36,526	100.0 %	\$ 31,304	100.0 %	\$ 89,338	100.0 %	\$ 93,634	100.0 %
Gross profit	\$ 11,184	30.6 %	\$ 8,928	28.5 %	\$ 27,165	30.4 %	\$ 26,772	28.6 %
SG&A	\$ 4,134	11.3 %	\$ 2,541	8.1 %	\$ 9,264	10.4 %	\$ 8,023	8.6 %
Operating income	\$ 4,759	13.0 %	\$ 4,141	13.2 %	\$ 11,118	12.4 %	\$ 12,011	12.8 %

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net sales

Net sales for the quarter ended September 30, 2020 were \$36.5 million, an increase of \$5.2 million, or 16.7%, compared to the quarter ended September 30, 2019. The increase in net sales during the quarter was primarily due to the acquisition of Polyfoam in July 2020.

Gross profit

Gross profit as a percentage of net sales was 30.6% and 28.5% for the three months ended September 30, 2020 and 2019, respectively. The increase in gross profit as a percentage of net sales in the quarter ended September 30, 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 September 30, 2020 was \$4.1 million as compared to \$2.5 million for the three months ended September 30, 2019, an increase of \$1.6 million. The selling, general and administrative expense in the third quarter of 2020 includes \$0.3 million in transaction costs related to Foam Fabricators' acquisition of Polyfoam in the third quarter. The remainder of the increase in selling, general and administrative expense was primarily due to the acquisition of Polyfoam.

Income from operations

Income from operations was \$4.8 million in the three months ended September 30, 2020, an increase of \$0.6 million as compared to the three months ended September 30, 2019, based on the factors noted above.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net sales

Net sales for the nine months ended September 30, 2020 were \$89.3 million, a decrease of \$4.3 million, or 4.6%, compared to the nine months ended September 30, 2019. The decrease in net sales during the first nine months of 2020 was due to a slow-down in the appliance and automotive customer sectors, as well as a general slow-down across other customer segments in April and May, as a result of the effect of the COVID-19 pandemic on our customers' operations. While most of our customer sectors saw improved performance beginning in June, the appliance and automotive sectors continued to see a slowdown in sales through the end of the second quarter. During the third quarter of 2020, appliance sales continued to trend lower versus the prior year due to lower demand and supply chain and labor constraints resulting from the COVID-19 pandemic.

Gross profit

Gross profit as a percentage of net sales was 30.4% and 28.6% for the nine months ended September 30, 2020 and 2019, respectively. The increase in gross profit as a percentage of net sales in the nine months ended September 30, 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 nine months ended September 30, 2020 was \$9.3 million as compared to \$8.0 million for the nine months ended September 30, 2019, an increase of \$1.2 million. Selling, general and administrative expense for the nine months ended September 30, 2019 included \$0.3 million in integration service fees paid to CGM, while the nine months ended September 30, 2020 included \$0.2 million in transaction costs related to Foam Fabricators' acquisition of Polyfoam in July 2020. The remainder of the increase in selling, general and administrative expense was primarily due to the acquisition of Polyfoam during the third quarter.

Income from operations

Income from operations was \$11.1 million in the nine months ended September 30, 2020 as compared to \$12.0 million in the nine months ended September 30, 2019, a decrease of \$0.9 million based on the factors noted above.

Sterno

	Three months ended				Nine months ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
Net sales	\$ 97,737	100.0 %	\$ 111,470	100.0 %	\$ 258,132	100.0 %	\$ 289,131	100.0 %
Gross profit	\$ 20,849	21.3 %	\$ 26,969	24.2 %	\$ 56,645	21.9 %	\$ 71,989	24.9 %
SG&A	\$ 8,797	9.0 %	\$ 9,855	8.8 %	\$ 26,605	10.3 %	\$ 30,109	10.4 %
Operating income	\$ 7,674	7.9 %	\$ 12,724	11.4 %	\$ 16,906	6.5 %	\$ 28,821	10.0 %

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Net sales

Net sales for the three months ended September 30, 2020 were approximately \$97.7 million, a decrease of \$13.7 million, or 12.3%, 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 2020, partially offset by favorable sales volume at Rimports of wax and essential oils in the third quarter of 2020. We expect the food service industry to continue to be negatively impacted for the remainder of 2020 by COVID-19.

Gross profit

Gross profit as a percentage of net sales decreased from 24.2% for the three months ended September 30, 2019 to 21.3% for the same period ended September 30, 2020. The decrease in gross profit in the third quarter of 2020 as compared to the third quarter of 2019 was attributable to product mix, with lower margin sales in the third quarter of 2020, higher freight and tariff costs.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2020 was approximately \$8.8 million as compared to \$9.9 million for the three months ended September 30, 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 9.0% of net sales for the three months ended September 30, 2020 and 8.8% for the three months ended September 30, 2019.

Income from operations

Income from operations for the three months ended September 30, 2020 was approximately \$7.7 million, a decrease of \$5.1 million compared to the three months ended September 30, 2019 based on the factors noted above.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Net sales

Net sales for the nine months ended September 30, 2020 were approximately \$258.1 million, a decrease of \$31.0 million, or 10.7%, 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 beginning in the latter half of March, partially offset by favorable sales volume at Rimports of wax and essential oils during 2020. We expect the food service industry to continue to be negatively impacted for the remainder of 2020 by COVID-19.

Gross profit

Gross profit as a percentage of net sales was 21.9% for the nine months ended September 30, 2020 as compared to 24.9% for the nine months ended September 30, 2019. The decrease in gross profit during 2020 as compared to 2019 was attributable to product mix, with lower margin sales in 2020, higher freight and tariff costs.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2020 was approximately \$26.6 million as compared to \$30.1 million for the nine months ended September 30, 2019, a decrease of \$3.5 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 10.3% of net sales for the nine months ended September 30, 2020 and 10.4% for the nine months ended September 30, 2019.

Income from operations

Income from operations for the nine months ended September 30, 2020 was approximately \$16.9 million, a decrease of \$11.9 million compared to the nine months ended September 30, 2019 based on the factors noted above.

Liquidity and Capital Resources

Liquidity

At September 30, 2020, we had approximately \$176.8 million of cash and cash equivalents on hand, an increase of \$76.5 million as compared to the year ended December 31, 2019. In May 2020, we completed an offering of 5,000,000 Trust common shares for net proceeds, after deducting the underwriter's discount and offering costs, of approximately \$83.9 million. Also in May 2020, we issued \$200 million in additional Senior Notes. We used \$200 million of the proceeds from the common share offering and issuance of additional Senior Notes to pay down the outstanding amount on our 2018 Revolving Credit Facility. Subsequent to the end of the quarter, we completed the acquisition of BOA for a total purchase price of \$454 million (excluding working capital and certain other adjustments upon closing, and transaction costs). The Company funded the acquisition of BOA with cash on hand and a \$300 million draw on its 2018 Revolving Credit Facility. 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:

<i>(in thousands)</i>	Nine months ended	
	September 30, 2020	September 30, 2019
Cash provided by operating activities	\$ 112,872	\$ 31,584

For the nine months ended September 30, 2020, cash flows provided by operating activities totaled approximately \$112.9 million, which represents a \$81.3 million increase compared to cash provided by operating activities of \$31.6 million during the nine-month period ended September 30, 2019. The increase in cash flows in 2020 is attributable to an increase in income from continuing operations in the nine months ended September 30, 2020, driven by strong performance at our 5.11, Liberty and Velocity businesses, and a significant 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, partially offset by the increase in interest expense related to \$200 million in our 8% Senior Notes issued in May 2020, resulted in a decrease in our interest expense in the first nine months of 2020 as compared to the first nine months of 2019 by approximately \$16.3 million. In the prior year, we also recognized a loss of \$10.2 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 nine months ended September 30, 2020 was \$10.4 million, as compared to cash used in operating activities for working capital of \$28.6 million for the nine months ended September 30, 2019. The increase in cash provided by working capital in the current year primarily reflects steps our businesses have taken to conserve cash in the current economy.

Investing Activities:

<i>(in thousands)</i>	Nine months ended	
	September 30, 2020	September 30, 2019
Cash (used in) provided by investing activities	\$ (236,502)	\$ 760,148

Cash flows used in investing activities for the nine months ended September 30, 2020 totaled \$236.5 million, compared to cash provided by investing activities of \$760.1 million in the same period of 2019. Cash provided by investing activities in the prior year primarily related to the proceeds received from the sale of our Manitoba Harvest and Clean Earth businesses, while investing activities in the nine months ended September 30, 2020 reflect the acquisition of Marucci Sports in April 2020. Our spending on capital expenditures was consistent year over year, with \$20.1 million in capital expenditures in the nine months ended September 30, 2020 and \$22.0 million in capital expenditures in the nine months ended September 30, 2019. We expect capital expenditures for the full year of 2020 to be approximately \$28 million to \$33 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:

<i>(in thousands)</i>	Nine months ended	
	September 30, 2020	September 30, 2019
Cash provided by (used in) financing activities	\$ 200,395	\$ (557,118)

Cash flows provided by financing activities totaled approximately \$200.4 million during the nine months ended September 30, 2020 compared to cash flows used in financing activities of \$557.1 million during the nine months ended September 30, 2019. Financing activities in both periods reflect the payment of our common and preferred share distributions, with a \$6.3 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 and Clean Earth to repay amounts outstanding under our 2018 Revolving Credit Facility and 2018 Term Loan, while in the current year, we completed a common share offering and the issuance of \$200 million in Senior Notes, resulting in net proceeds of \$285.9 million. A portion of the proceeds received from the issuance of Senior Notes and common share offering were used to pay down the amount outstanding on our 2018 Revolving Credit

facility. During the nine months ended September 30, 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 September 30, 2020.

As of September 30, 2020, we had the following outstanding loans due from each of our businesses:

<i>(in thousands)</i>	
5.11	\$ 170,765
Ergobaby	\$ 30,041
Liberty	\$ 37,657
Marucci	\$ 39,625
Velocity Outdoor	\$ 101,140
Advanced Circuits	\$ 51,283
Arnold	\$ 74,180
Foam Fabricators	\$ 87,087
Sterno	\$ 236,846

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 and interest on our Senior Notes; (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 July 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 \$598.8 million in net availability under the 2018 Revolving Credit Facility at September 30, 2020. The outstanding borrowings under the 2018 Revolving Credit Facility include \$1.2 million of outstanding letters of credit at September 30, 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. On May 7, 2020, we consummated the issuance and sale of \$200 million aggregate principal amount of its 8.000% Senior Notes due 2026 (the "Additional Notes"). The proceeds from the Additional Notes were used to pay down the amount outstanding on the Company's 2018 Revolving Credit Facility. The Notes and Additional 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 September 30, 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	5.28:1.0
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	1.83:1.0

Interest Expense

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

	Nine months ended September 30,	
	2020	2019
Interest on credit facilities	\$ 685	\$ 20,225
Interest on Senior Notes	30,400	24,000
Unused fee on Revolving Credit Facility	1,148	1,393
Amortization of bond premium/ original issue discount	(139)	397
Unrealized loss on interest rate derivative ⁽¹⁾	—	3,486
Other interest expense	235	211
Interest income	(207)	(1,288)
Interest expense, net	\$ 32,122	\$ 48,424

⁽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.

The following table provides the effective interest rate of the Company's outstanding long-term debt at September 30, 2020 and December 31, 2019 (*in thousands*):

	September 30, 2020		December 31, 2019	
	Effective Interest Rate	Amount	Effective Interest Rate	Amount
Senior Notes	7.92%	\$ 600,000	8.00%	\$ 400,000
Unamortized premiums and debt issuance costs		(7,893)		(5,555)
Long-term debt		\$ 592,107		\$ 394,445

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; (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 and (vi) items of other income or expense that are material to a subsidiary and non-recurring in nature.

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

We believe 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
Nine months ended September 30, 2020

	Corporate	5.11	Ergobaby	Liberty	Marucci Sports	Velocity Outdoor	ACI	Arnold	Foam	Sterno	Consolidated
Income (loss)	\$ (10,535)	5,535	1,837	7,139	(5,344)	4,235	10,980	(1,739)	4,188	2,131	18,417
Adjusted for:											
Provision (benefit) for income taxes	—	(55)	2,265	2,357	(2,351)	1,386	2,878	(56)	1,891	162	8,477
Interest expense, net	31,971	43	—	—	6	102	—	—	—	—	32,122
Company interest	(51,429)	10,770	1,818	2,748	1,194	6,945	4,176	4,300	5,290	14,188	—
Depreciation and amortization	467	16,033	6,152	1,294	8,031	9,651	1,980	5,040	9,473	17,251	75,372
Gain on sale of business	(29,526)	32,306	12,072	13,518	1,536	22,329	20,014	7,565	20,842	33,732	134,388
Gain on sale of business	(100)	—	—	—	—	—	—	—	—	—	(100)
Minority (income) expense	3	1,398	—	(4)	(46)	1,048	126	(1)	(438)	86	2,172
Controlling shareholder compensation	—	1,870	748	22	361	1,287	372	34	771	651	6,116
Transition expenses and other	—	—	—	—	2,042	—	—	—	273	—	2,315
Transition services fee	—	—	—	—	500	—	—	—	—	—	500
Transition services fee	—	—	598	—	—	—	—	—	—	—	598
Management fees	19,651	750	375	375	222	375	375	375	563	375	23,436
Adjusted EBITDA	\$ <u>(9,932)</u>	<u>36,334</u>	<u>13,793</u>	<u>13,931</u>	<u>4,635</u>	<u>25,039</u>	<u>20,837</u>	<u>7,933</u>	<u>22,031</u>	<u>34,834</u>	<u>169,425</u>

Adjusted EBITDA
Nine months ended September 30, 2019

	Corporate	5.11	Ergobaby	Liberty	Marucci Sports	Velocity Outdoor	ACI	Arnold	Foam	Sterno	Consolidated
Income (loss) ⁽¹⁾	\$ 292,480	(1,031)	4,251	1,404		\$ (35,252)	11,055	(132)	3,383	8,859	284,887
Adjusted for:											
Provision (benefit) for income taxes	—	742	2,248	1,058		(2,198)	2,934	1,679	1,492	2,420	10,375
Interest expense, net	48,247	2	—	—		173	(1)	(1)	—	4	48,424
Intercompany interest	(61,609)	13,500	2,640	3,278		8,484	5,029	4,777	6,675	17,226	—
Loss on debt extinguishment	5,038	—	—	—		—	—	—	—	—	5,038
Depreciation and amortization	1,333	16,037	6,566	1,248	Not Applicable	9,937	1,830	4,883	9,258	16,793	67,885
Gain on sale of businesses	285,449	29,210	15,705	6,988		(18,846)	20,827	11,206	20,808	45,262	416,609
Loss on sale of investment	(330,203)	—	—	—		—	—	—	—	—	(330,203)
Minority (income) expense	91	(92)	(11)	10		968	(22)	(3)	256	16	1,213
Noncontrolling shareholder compensation	—	1,742	620	(15)		86	167	32	767	866	4,265
Impairment expense	—	—	—	—		33,381	—	—	—	—	33,381
Loss on sale of investment	10,193	—	—	—		—	—	—	—	—	10,193
Migration services fee	—	—	—	—		—	—	—	281	—	281
Minority interest	—	—	—	266		—	58	—	—	—	324
Management fees	24,789	750	375	375		375	375	375	563	375	28,352
Adjusted EBITDA	\$ (9,681)	31,650	16,689	7,624		\$ 15,964	21,465	11,650	22,655	46,559	164,415

⁽¹⁾ Net income (loss) does not include loss from discontinued operations for the nine months ended September 30, 2019.

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.

<i>(in thousands)</i>	Nine Months Ended	
	September 30, 2020	September 30, 2019
Net income	\$ 18,417	\$ 301,788
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	73,578	78,413
Impairment expense	—	33,381
Gain on sale of businesses	(100)	(330,203)
Amortization of debt issuance costs, discount and premium	1,656	3,022
Unrealized loss on interest rate hedge	—	3,486
Noncontrolling shareholder charges	6,116	6,204
Provision for loss on receivables	4,374	2,786
Deferred taxes	(3,352)	(14,538)
Other	1,776	5,961
Changes in operating assets and liabilities	10,407	(58,716)
Net cash provided by operating activities	112,872	31,584
Plus:		
Unused fee on revolving credit facility	1,148	1,393
Integration services fee ⁽¹⁾	500	281
Successful acquisition costs	2,315	596
Realized loss from foreign currency ⁽²⁾	—	363
Loss on sale of Tilray Common Stock	—	10,193
Changes in operating assets and liabilities	—	58,716
Less:		
Payment of interest rate swap	—	675
Changes in operating assets and liabilities	10,407	—
Maintenance capital expenditures: ⁽³⁾		
Compass Group Diversified Holdings LLC	—	—
5.11	897	1,547
Advanced Circuits	354	1,126
Arnold	2,761	2,874
Clean Earth	—	3,495
Ergobaby	374	583
Foam Fabricators	1,518	1,387
Liberty	438	720
Marucci Sports	220	—
Sterno	1,061	932
Velocity Outdoor	2,743	2,096
Other	3,776	2,301
Preferred share distribution	17,633	11,344
Estimated cash flow available for distribution and reinvestment	\$ 74,653	\$ 74,046

Distribution paid in April 2020/2019	\$	(21,564)	\$	(21,564)
Distribution paid in July 2020/2019		(23,364)		(21,564)
Distribution paid in October 2020/2019		(23,364)		(21,564)
	\$	(68,292)	\$	(64,692)

⁽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 \$9.7 million for the nine months ended September 30, 2020 and \$10.7 million for the nine months ended September 30, 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 C - 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 agreed to waive 50% of the management fee calculated at June 30, 2020 that was paid in July 2020. Further, for the third quarter of 2020, 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 September 30, 2020.

Integrations Services Agreements

Marucci Sports, which was acquired in April 2020, 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. CGM will receive integration service fees of \$2.0 million payable quarterly over a twelve month period as services are rendered beginning in the quarter ended September 30, 2020. Foam Fabricators, which was acquired in 2018, entered into an ISA with CGM. 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 and nine months ended September 30, 2020, 5.11 purchased approximately \$0.7 million and \$2.3 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 ten-year anniversary of Ergo occurred in September 2020 which represented a Holding Event. The Holders elected to defer the distribution of \$2.0 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 September 30, 2020:

<i>(in thousands)</i>	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations ⁽¹⁾	\$ 865,233	\$ 24,000	\$ 96,000	\$ 97,233	\$ 648,000
Operating lease obligations ⁽²⁾	133,114	4,841	52,393	32,424	43,456
Purchase obligations ⁽³⁾	767,926	192,371	288,114	287,441	—
Total ⁽⁴⁾	<u>\$ 1,766,273</u>	<u>\$ 221,212</u>	<u>\$ 436,507</u>	<u>\$ 417,098</u>	<u>\$ 691,456</u>

⁽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 September 30, 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 September 30, 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 Policies and 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 policies and 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

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 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 September 30, 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 September 30, 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 and updated in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 should be considered together with information included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 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 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 updated by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

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) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant 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
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: October 28, 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: October 28, 2020

EXHIBIT INDEX

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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.

October 28, 2020

/s/ Elias J. Sabo

Elias J. Sabo

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

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

I, 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.

October 28, 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)*

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

In connection with the Quarterly Report of COMPASS GROUP DIVERSIFIED HOLDINGS LLC on Form 10-Q for the period ended September 30, 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: October 28, 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 September 30, 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.

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 September 30, 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: October 28, 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 September 30, 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.