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

FORM 8-K

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

Date of Report (Date of earliest event reported): May 19, 2009

COMPASS DIVERSIFIED HOLDINGS

(Exact name of registrant as specified in its charter)

Delaware	**0-51937**	**57-6218917**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Delaware	**0-51938**	**20-3812051**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

Sixty One Wilton Road
Second Floor
Westport, CT 06880
(Address of principal executive offices and zip code)
Registrant’s telephone number, including area code: **(203) 221-1703**

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

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events

On January 1, 2009, Compass Group Diversified Holdings LLC ("the Company") adopted SFAS No. 160*, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* ("SFAS 160"), which amends ARB 51. SFAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS 160 became effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 affected the presentation of the Consolidated Financial Statements, primarily by including non-controlling interest as a separate component of stockholders' equity on the Consolidated Statements of Financial Condition.

The presentation herein has been recast to show the effect of the adoption of SFAS 160 on a retrospective basis.

The following items of the Company's 2008 Annual Report on Form 10K as amended, are being adjusted retrospectively: i.) Part 2, Item 6. Selected Financial Data; ii.) Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and iii.) Item 8. Financial Statements and Supplemental Data are set forth on Exhibits 99.1, 99.2 and 99.3 hereto, respectively, and are incorporated by reference herein. We have not modified or updated any other disclosures presented in our 2008 Annual Report on Form 10K as amended.

Item 9.01. Financial Statements and Exhibits

See Exhibit Index.

SIGNATURES

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

Date: May 19, 2009

COMPASS DIVERSIFIED HOLDINGS

By: /s/ James J. Bottiglieri
James J. Bottiglieri
Regular Trustee

SIGNATURES

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

Date: May 19, 2009

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

By: /s/ James J. Bottiglieri
James J. Bottiglieri
Chief Financial Officer

Exhibit Index

Exhibit No.	Description
23.1	Consent of Independent Registered Public Accounting Firm
99.1	Selected Financial Data
99.2	Management’s Discussion and Analysis of Financial Condition and Results of Operations
99.3	Financial Statements and Supplemental Data

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 12, 2009 (except for the adjustments to retrospectively apply the adoption of Financial Accounting Standards Board Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51, effective January 1, 2009, as described in Note B and Note N as to which the date is May 14, 2009) with respect to the consolidated financial statements and schedule included in the Current Report of Compass Diversified Holdings and Subsidiaries on Form 8-K dated May 19, 2008. We hereby consent to the incorporation by reference of said report in the Registration Statements of Compass Diversified Holdings and Subsidiaries on Forms S-3 (File Nos. 333-147218 and 333-147217, effective November 26, 2007).

/S/ GRANT THORNTON LLP

New York, New York

May 14, 2009

PART II

ITEM 6. — SELECTED FINANCIAL DATA

The following table sets forth selected historical and other data of the Company and should be read in conjunction with the more detailed consolidated financial statements included elsewhere in this report.

Selected financial data below includes the results of operations, cash flow and balance sheet data of the Company for the years ended December 31, 2008, 2007, 2006 and 2005. We were incorporated on November 18, 2005 ("inception"). Financial data included for the year ended December 31, 2005, includes the minimal activity experienced from inception to December 31, 2005. We completed our IPO on May 16, 2006 and used the proceeds of the IPO and separate private placement transactions, that closed in conjunction with our IPO, and from our third party credit facility, to purchase controlling interests in four of our initial operating subsidiaries. The following table details our acquisitions and dispositions subsequent to our IPO.

Acquisitions:	Acquisition Date	Disposition Date
Advanced Circuits(1)	May 16, 2006	n/a
CBS Personnel(1)	May 16, 2006	n/a
Crosman(1)	May 16, 2006	January 5, 2007
Silvue(1)	May 16, 2006	June 25, 2008
Anodyne	August 1, 2006	n/a
Aeroglide	February 28, 2007	June 24, 2008
HALO	February 28, 2007	n/a
American Furniture	August 31, 2007	n/a
Fox	January 4, 2008	n/a
Staffmark(2)	January 21, 2008	n/a

(1) Represent initial operating subsidiaries.

(2) Staffmark was acquired by our operating segment CBS Personnel.

The operating results for Crosman are reflected as discontinued operations in 2006 and as such are not included in the data below. The operating results for Aeroglide are reflected as discontinued operations in 2008 and 2007 and as such are not included in the data below. The operating results for Silvue are reflected as discontinued operations in 2008, 2007 and 2006 and as such are not included in the data below. Financial data included below therefore only includes activity in our operating subsidiaries from their respective dates of acquisition.

	Year ended December 31,			
	2008	2007	2006	2005
Statements of Operations Data:				
Net sales	$ 1,538,473	$ 841,791	$ 395,173	$ —
Cost of sales	1,196,206	636,008	307,014	—
Gross profit	342,267	205,783	88,159	—
Operating expenses:				
Staffing	102,438	56,207	34,345	—
Selling, general and administrative	165,768	94,426	31,605	1
Supplemental put expense	6,382	7,400	22,456	—
Management fees	15,205	10,120	4,158	—
Amortization expense	24,605	12,679	5,814	—
Operating income (loss)	27,869	24,951	(10,219)	(1)
Income (loss) from continuing operations	3,817	10,051	(27,973)	(1)
Income and gain from discontinued operations	77,970	41,314	9,831	—
Net income (loss)	81,787	51,365	(18,142)	(1)
Net income attributable to noncontrolling interest	3,493	10,997	1,107	—
Net income (loss) attributable to Holdings (1), (2)	$ 78,294	$ 40,368	$ (19,249)	$ (1)
Cash Flow Data:				
Cash provided by operating activities	$ 40,549	$ 41,772	$ 20,563	$ —
Cash used in investing activities	(22,542)	(114,158)	(362,286)	—
Cash (used in) provided by financing activities	(39,812)	184,882	351,073	100
Net (decrease) increase in cash and cash equivalents	(21,885)	112,352	9,610	100
Basic and fully diluted income (loss) per share attributable to Holdings:				
Continuing operations	$ 0.01	$ (0.04)	$ (2.29)	$ —
Discontinued operations	2.47	1.50	0.77	—
Basic and fully diluted income (loss) per share attributable to Holdings	$ 2.48	$ 1.46	$ (1.52)	$ —

(1) Includes gains on the sales of Aeroglide and Silvue in 2008 of $34.0 million and $39.4 million, respectively, and Crosman in 2007 of $36.0 million.

(2) Includes a charge to net income of $10.0 million for distributions made at the subsidiary (ACI) level in excess of cumulative earnings in 2007.

	2008	2007	2006(1)	2005
Balance Sheet Data:				
Current assets	$335,201	$299,241	$135,121	$3,408
Total assets	984,336	828,002	496,382	3,408
Current liabilities	139,370	106,613	155,534	3,309
Long-term debt	151,000	148,000	—	—
Total liabilities	440,458	373,285	221,934	3,309
Noncontrolling interests	79,431	21,867	17,734	100
Shareholders’ equity (deficit) attributable to Holdings	464,447	432,850	255,711	(1)

(1) Includes a reclassification of $7.2 million of Crosman’s discontinued operations noncontrolling interest to total liabilities.

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

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

Overview

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

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

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

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

Our management team's strategy for our subsidiaries involves:

- utilizing structured incentive compensation programs tailored to each business 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.

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

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

Initial public offering and company formation

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

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

From May 16, 2006 through December 31, 2008, we purchased nine businesses (each of our businesses is treated as a separate business segment) and disposed of three, as follows:

Acquisitions

- On May 16, 2006, we made loans to and purchased a controlling interest in *CBS Personnel* for approximately $128 million. As of December 31, 2008, we own approximately 66.4% of the common stock on a primary basis and 62.4% on a fully diluted basis.
- On May 16, 2006, we made loans to and purchased a controlling interest in *Crosman* for approximately $73 million representing at the time of purchase approximately 75.4% on both a primary and fully diluted basis.
- On May 16, 2006, we made loans to and purchased a controlling interest in *Advanced Circuits* for approximately $81 million. As of December 31, 2008, we own approximately 70.2% of the common stock on a primary and fully diluted basis.
- On May 16, 2006, we made loans to and purchased a controlling interest in *Silvue* for approximately $36 million, representing at the time of purchase approximately 72.3% of the outstanding stock on both a primary and fully diluted basis.
- On August 1, 2006, we made loans to and purchased a controlling interest in *Anodyne* for approximately $31 million. As of December 31, 2008, we own approximately 67.0% of the common stock on a primary basis and 57.0% on a fully diluted basis.
- On February 28, 2007, we made loans to and purchased a controlling interest in *Aeroglide* for approximately $58 million, representing at the time of purchase approximately 88.9% of the outstanding stock on a primary basis and approximately 73.9% on a fully diluted basis.
- On February 28, 2007, we made loans to and purchased a controlling interest in *HALO* was purchased for approximately $62 million. As of December 31, 2008, we own approximately 88.3% of the common stock on a primary basis and 73.6% on a fully diluted basis.
- On August 28, 2007, we made loans to and purchased a controlling interest in *American Furniture* for approximately $97 million. As of December 31, 2008, we own approximately 93.9% of the common stock on a primary basis and 84.5% on a fully diluted basis.

- On January 4, 2008, we made loans to and purchased a controlling interest in *Fox* for approximately $80.4 million. As of December 31, 2008, we own approximately 75.5% of the common stock on a primary basis and 68.0% on a fully diluted basis.

Dispositions

- On January 5, 2007, we sold all of our interest in Crosman, for approximately $143 million. We recorded a gain on the sale in the first quarter of 2007 of approximately $36 million.
- On June 24, 2008, we sold all of our interest in Aeroglide, for approximately $95 million. We recorded a gain on the sale in the second quarter of 2008 of approximately $34 million.
- On June 25, 2008, we sold all of our interest in Silvue, for approximately $95 million. We recorded a gain on the sale in the second quarter of 2008 of approximately $39 million.

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

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

2008 Highlights

Acquisition of Fox Factory

On January 4, 2008, we purchased a controlling interest in Fox, with operations headquartered in Watsonville, California. Fox is a designer, manufacturer and marketer of high end suspension products for mountain bikes, all-terrain vehicles, snowmobiles and other off-road vehicles. Fox both acts as a tier one supplier to leading action sport original equipment manufacturers and provides after-market products to retailers and distributors. We made loans to and purchased a controlling interest in Fox for approximately $80.4 million, representing approximately 75.5% of the outstanding equity

Acquisition of Staffmark

On January 21, 2008, CBS Personnel purchased all of the outstanding equity interests of Staffmark. Staffmark is a leading provider of commercial staffing services in the United States. Staffmark provides staffing services in over 30 states through over 200 branches and on-site locations. The majority of Staffmark's revenues are derived from light industrial staffing, with the balance of revenues derived from administrative and transportation staffing, permanent placement services and managed solutions. Similar to CBS Personnel, Staffmark was one of the largest privately held staffing companies in the United States. CBS Personnel repaid approximately $80 million of Staffmark debt and issued CBS Personnel common stock valued at $47.9 million, representing approximately 28% of CBS Personnel's outstanding common stock, on a fully diluted basis. As a result of the Staffmark acquisition we now own approximately 66.4% of the outstanding stock of CBS personnel on a primary basis and approximately 62.4% on a fully diluted basis.

Aeroglide disposition

On June 24, 2008, we sold our majority owned subsidiary Aeroglide, for a total enterprise value of approximately $95.0 million. Our share of the net proceeds, after accounting for the redemption of Aeroglide's noncontrolling holders and payment of transaction expenses totaled $85.6 million. Our Manager was paid a profit allocation from this sale in August 2008, totaling approximately $7.3 million. We recognized a gain on the sale of approximately $34.0 million, or $1.08 per share.

Silvue disposition

On June 25, 2008, we sold our majority owned subsidiary Silvue, for a total enterprise value of $95.0 million. Our share of the net proceeds, after accounting for the redemption of Aeroglide's noncontrolling holders and payment of transaction expenses totaled $71.3 million. Our Manager was paid a profit allocation from this sale in August 2008, totaling approximately $7.7 million. We recognized a gain on the sale of approximately $39.4 million, or $1.25 per share.

2008 Distributions

We increased our quarterly distribution to $0.34 per share during the third quarter of 2008. For the year we declared distributions to our shareholders totaling $1.33 per share.

Areas for focus in 2009

The areas of focus for 2009, which are generally applicable to each of our businesses, include:

- Taking advantage, where possible, of the current economic downturn by growing market share in each of our market niche leading companies at the expense of less well capitalized competitors;
- Achieving sales growth, technological excellence and manufacturing capability through global expansion;
- Continuing to grow through disciplined, strategic acquisitions and rigorous integration processes;
- Aggressively pursuing expense reduction and cost savings through contraction in discretionary spending and capital expenditures, and reductions in workforce and production levels in response to lower production volume;
- Driving free cash flow through increased net income and effective working capital management enabling continued investment in our businesses, strategic acquisitions, and enabling us to return value to our shareholders; and
- Sharply curtailing costs to help counteract the current global economic crisis.

Results of Operations

We were formed on November 18, 2005 and acquired our existing businesses (segments) as follows:

May 16, 2006	August 1, 2006	February 28, 2007	August 31, 2007	January 4, 2008
Advanced Circuits	Anodyne	HALO	American Furniture	Fox
CBS Personnel				

Fiscal 2007 and 2008 represents a full year of operating results included in our consolidated results of operations for only three of our businesses. The remaining three businesses were acquired during fiscal 2007 and 2008 (see table above). As a result, we cannot provide a meaningful comparison of our consolidated results of operations for the year ended December 31, 2008 with any prior year. In the following results of operations, we provide (i) our consolidated results of operations for the years ended December 31, 2008, 2007 and 2006, which includes the results of operations of our businesses (segments) from the date of acquisition and (ii) comparative historical results of operations for each of our businesses acquired in 2006, on a stand-alone basis, for each of the years ended December 31, 2008, 2007 and 2006, together with relevant pro-forma adjustments, and for each of our businesses acquired in 2007 and 2008 for the years ended December 31, 2008 and 2007, together with relevant pro-forma adjustments.

Consolidated Results of Operations — Compass Diversified Holdings

	Years Ended December 31,		
	2008	2007	2006
Net sales	$ 1,538,473	$ 841,791	$ 395,173
Cost of sales	1,196,206	636,008	307,014
Gross profit	342,267	205,783	88,159
Staffing, selling, general and administrative expense	268,206	150,633	65,950
Management fees	15,205	10,120	4,158
Supplemental put expense	6,382	7,400	22,456
Amortization of intangibles	24,605	12,679	5,814
Operating income (loss)	$ 27,869	$ 24,951	$ (10,219)

Net sales

On a consolidated basis net sales increased approximately $696.7 million in the year ended December 31, 2008 compared to 2007. The increase is primarily attributable to increased revenues at CBS Personnel resulting from the acquisition of Staffmark on January 23, 2008 and net sales attributable to our majority owned subsidiary Fox, also acquired in January 2008 ($131.7 million). On a consolidated basis net sales increased approximately $446.6 million in the year ended December 31, 2007 compared to 2006. This increase is due to net sales attributable to a full year of operations of our initial businesses (acquired on May 16, 2006) in 2007 and net sales results attributable to our 2007 acquisitions ($175.4 million). Refer to the following results of operations by segment for discussion and a more detailed analysis of net sales by segment.

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

Cost of sales

On a consolidated basis cost of sales increased approximately $560.2 million in the year ended December 31, 2008 compared to 2007 and $329.0 million in the year ended December 31, 2007 compared to 2006. These increases are due entirely to the corresponding increase in net sales referred to above. Refer to the following results of operations by segment for a discussion and a more detailed analysis of cost of sales.

Staffing, selling, general and administrative expense

On a consolidated basis, staffing, selling, general and administrative expense increased approximately $117.6 million in the year ended December 31, 2008 compared to 2007 and $84.7 million in the year ended December 31, 2007 compared to 2006. These increases are principally due to those costs associated with our 2008 acquisitions and 2007 acquisitions. Refer to the following results of operations by segment for a discussion and a more detailed analysis of staffing, selling, general and administrative expense. At the corporate level general and administrative costs increased approximately $2.0 million in 2008 compared to 2007 and $1.6 million in 2007 compared to 2006, in each case as a result of increased salaries and professional fees.

Management fees

Pursuant to the Management Services Agreement, we pay CGM a quarterly management fee equal to 0.5% (2.0% annualized) of our adjusted net assets, which is defined in the Management Services Agreement (see Related Party Transactions). For the year ended December 31, 2008, 2007 and 2006 we incurred approximately $14.7 million, $10.1 million and $4.2 million, respectively, in expense for these fees. The increase in management fees in 2008 is principally due to the increase in consolidated adjusted net assets in 2008 as a result of CBS Personnel's acquisition of Staffmark in January 2008 and our acquisition of Fox in January 2008, offset in part by the sale of Aeroglide and Silvue in June 2008. The increase in management fees in 2007 compared to 2006 is principally due to incurring the management fee for four quarters in 2007 compared to only three in 2006, on our initial businesses, and the increase in adjusted net assets as a result of the 2007 acquisitions, offset in part by the sale of Crosman in January 2007.

In connection with the acquisition of Staffmark in January 2008, CBS Personnel paid approximately $0.5 million during the year ended December 31, 2008 to a separate manager of Staffmark, unrelated to CGM.

Supplemental put expense

Concurrent with the 2006 IPO, we entered into a Supplemental Put Agreement with our Manager pursuant to which our Manager has the right to cause us to purchase the Allocation Interests then owned by them upon termination of the Management Services Agreement. The Company accrued approximately $6.4 million, $7.4 million and $22.5 million in expense during the years ended December 31, 2008, 2007 and 2006, respectively, in connection with this agreement. This expense represents that portion of the estimated increase in the fair value of our businesses over our original basis in those businesses that our Manager is entitled to if the Management Services Agreement were terminated or those businesses were sold (see – Related Party Transactions).

Amortization of intangibles

On a consolidated basis, amortization expense of intangible assets increased approximately $11.9 million in the year ended December 31, 2008 compared to 2007 and approximately $6.9 million in the year ended December 31, 2007 compared to 2006. These increases are due entirely to the recognition of intangible assets and the attendant amortization directly related to the purchase price allocations performed for each of our acquisitions, since inception. Refer to the following results of operations by segment for a discussion and a more detailed analysis of intangible asset amortization expense.

Results of Operations — Our Businesses

As previously discussed, we acquired our businesses on various acquisition dates beginning May 16, 2006 (see table above). As a result, our consolidated operating results only include the results of operations since the acquisition date associated with each of the businesses. The following discussion reflects a comparison of the historical results of operations for each of our initial businesses (segments), for the complete fiscal years ending December 31, 2008, 2007 and 2006, as if we had acquired them on January 1, 2006. In addition, the historical results of operations for CBS Personnel include the results of Staffmark (acquired on January 21, 2008) as if CBS acquired Staffmark as of January 1, 2006. For the 2008 acquisitions and 2007 acquisitions the following discussion reflects comparative historical results of operations for the entire fiscal years ending December 31, 2008 and 2007 as if we had acquired the businesses on January 1, 2007. When appropriate, relevant pro-forma adjustments are reflected in the historical operating results. Adjustments to depreciation and amortization resulting from purchase allocations that were not "pushed down" to a business are not included. We believe this presentation enhances the discussion and provides a more meaningful comparison of operating results. The following operating results of our businesses are not necessarily indicative of the results to be expected for a full year, going forward.

Advanced Circuits

Overview

Advanced Circuits is a provider of prototype, quick-turn and volume production PCBs to customers throughout the United States. Collectively, prototype and quick-turn PCBs represent approximately 66.0% of Advanced Circuits' gross revenues. Prototype and quick-turn PCBs typically command higher margins than volume production PCB's given that customers require high levels of responsiveness, technical support and timely delivery of prototype 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.

While global demand for PCBs has remained strong in recent years, industry wide domestic production has declined over 50% since 2000. In contrast, Advanced Circuits' revenues have increased steadily as its customers' prototype and quick-turn PCB requirements, such as small quantity orders and rapid turnaround, are less able to be met by low cost volume manufacturers in Asia and elsewhere. Advanced Circuits' management anticipates that demand for its prototype and quick-turn printed circuit boards will remain strong and anticipates that demand will be impacted less by current economic conditions than by its longer lead time production business, which is driven more by consumer purchasing patterns and capital investments by businesses.

We purchased a controlling interest in Advanced Circuits on May 16, 2006.

Results of Operations

The table below summarizes the statement of operations for Advanced Circuits for the fiscal years ending December 31, 2008, 2007 and 2006.

	Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Net sales	$ 55,449	$ 52,292	$ 48,139
Cost of sales	23,781	23,139	20,098
Gross profit	31,668	29,153	28,041
Selling, general and administrative expenses	10,872	8,914	12,855
Management fees	500	500	500
Amortization of intangibles	2,631	2,661	2,731
Income from operations	$ 17,665	$ 17,078	$ 11,955

Fiscal Year Ended December 31, 2008 Compared to Fiscal Year Ended December 31, 2007

Net sales

Net sales for the year ended December 31, 2008 was approximately $55.4 million compared to approximately $52.3 million for the year ended December 31, 2007, an increase of approximately $3.2 million or 6.0%. The increase in net sales was largely due to increased sales in quick-turn and prototype production PCBs, which increased by approximately $0.8 million and $2.1 million, respectively. Quick-turn production PCBs represented approximately 34.4% of gross sales for the year ended December 31, 2008 compared to approximately 33.0% for the fiscal year ended December 31, 2007. Prototype production represented approximately 31.6% of gross sales for the year ended December 31, 2008 compared to approximately 32.2% for the same period in 2007. Long-lead production and other sales as a percentage of gross sales increased to approximately 31.7% of gross sales for the fiscal year 2008 compared to approximately 32.1% for the fiscal 2007, as this segment of the company's business is typically driven more by economic conditions than either quick-turn or prototype production.

Cost of sales

Cost of sales for the fiscal year ended December 31, 2008 was approximately $23.8 million compared to approximately $23.1 million for the year ended December 31, 2007, an increase of approximately $0.6 million or 2.8%. The increase in cost of sales was largely due to the increase in net sales. Gross profit as a percent of net sales increased by approximately 1.3% to approximately 57.1% for the year ended December 31, 2008 compared to approximately 55.8% for the year ended December 31, 2007, largely as a result of increased production efficiencies, due to increased volume, offset in part by slight increases in raw material costs.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $2.0 million during the year ended December 31, 2008 compared to the corresponding period in 2007. In 2008 Advanced Circuits incurred non-cash charges aggregating approximately $1.6 million reflecting loan forgiveness arrangements provided to Advanced Circuits's senior management associated with CGI's initial acquisition of Advanced Circuits, compared to $0.3 million in 2007. The 2007 loan forgiveness charge was only $0.3 million due to an over accrual of the charge in 2006. This non-cash charge will approximate $1.6 million in future years. The remaining increase of approximately $0.7 million is principally due to increases in personnel, salaries and wages and associated benefits.

Income from operations

Income from operations for the year ended December 31, 2008 was $17.7 million compared to $17.1 million for the year ended December 31, 2007, an increase of $0.6 million. This increase primarily was the result of increased net sales and other factors described above.

Fiscal Year Ended December 31, 2007 Compared to Fiscal Year Ended December 31, 2006

Net sales

Net sales for the year ended December 31, 2007 was approximately $52.3 million compared to approximately $48.1 million for the year ended December 31, 2006, an increase of approximately $4.2 million or 8.6%. The increase in net sales was

largely due to increased sales in quick-turn and prototype production PCBs, which increased by approximately $2.2 million and $0.9 million, respectively. These sales increases were offset in part by an increase in promotional discounts of approximately $0.8 million. Quick-turn production PCBs represented approximately 33.0% of gross sales for the year ended December 31, 2007 as compared to approximately 32.1% for the fiscal year ended December 31, 2006. Prototype production represented approximately 32.2% of sales for the year ended December 31, 2007 compared to approximately 33.4% for the same period in 2006. Long-lead production sales as a percentage of sales increased to approximately 22.3% of sales for the fiscal year 2007 compared to approximately 20.4% for the fiscal year 2006.

Cost of sales

Cost of sales for the fiscal year ended December 31, 2007 was approximately $23.1 million compared to approximately $20.1 million for the year ended December 31, 2006, an increase of approximately $3.0 million or 15.1%. The increase in cost of sales was largely due to the increase in production. Gross profit as a percent of net sales decreased by approximately 2.5% to approximately 55.8% for the year ended December 31, 2007 compared to approximately 58.3% for the year ended December 31, 2006 largely as a result of significant increases in raw material costs, particularly the commodity items such as glass, copper and gold, as well as temporary inefficiencies caused as a result of capacity expansion at the Aurora, Colorado facility.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2007 was approximately $8.9 million compared to approximately $12.9 million for the year ended December 31, 2006, a decrease of approximately $3.9 million. Approximately $3.5 million of the decrease was due to loan forgiveness arrangements provided to Advanced Circuits' management associated with CGI's acquisition of Advanced Circuits. In 2006, Advanced Circuits accrued $3.8 million in non-cash charges associated with this arrangement compared to $0.3 million in 2007. In addition, cost savings totaling approximately $0.4 million were realized in fiscal 2007 due to decreases in employee incentive programs.

Income from operations

Income from operations was approximately $17.1 million for the year ended December 31, 2007 compared to approximately $12.0 million for the year ended December 31, 2006, an increase of approximately $5.1 million or 42.9%. The increase in income from operations was principally due to the increase in net sales and its associated gross margin and other factors, described above.

American Furniture

Overview

Founded in 1998 and headquartered in Ecru, Mississippi, American Furniture is a leading U.S. manufacturer of upholstered furniture, focused exclusively on the promotional segment of the furniture industry. American Furniture offers a broad product line of stationary and motion furniture, including sofas, loveseats, sectionals, recliners and complementary products, sold primarily at retail price points ranging between $199 and $999. American Furniture is a low-cost manufacturer and is able to ship any product in its line within 48 hours of receiving an order

On February, 12, 2008, American Furniture's 1.1 million square foot corporate office and manufacturing facility in Ecru, MS was partially destroyed in a fire. Approximately 750 thousand square feet of the facility was impacted by the fire. The executive offices were fundamentally unaffected. The recliner and motion plant, although largely unaffected, suffered some smoke damage but resumed operations on February 21, 2008. There were no injuries related to the fire.

The Company temporarily moved its stationary production lines into other facilities. In addition to its 45 thousand square foot 'flex' facility, management secured 166 thousand square feet of additional manufacturing and warehouse space in the surrounding Pontotoc area. These temporary stationary production facilities provided the company with approximately 90% of the pre-fire stationary production capabilities for the months of April, through November where orders for stationary products were addressed by these temporary facilities, whereas the orders for motion and recliner products were addressed by the production facilities that were largely unaffected by the fire at the Ecru facility. On November 7, 2008 the damaged manufacturing facility was fully restored and operating.

American Furniture's products are adapted from established designs in the following categories: (i) motion and recliner; (ii) stationary; (iii) occasional chair and; (iv) accent tables. American Furniture's products are manufactured from common components and offer proven select fabric options, providing manufacturing efficiency and resulting in limited design risk or inventory obsolescence.

Results of Operations

The table below summarizes the results of operations for American Furniture for the fiscal year ending December 31, 2008 and the pro-forma results of operations for the year ended December 31, 2007. We purchased a controlling interest in American Furniture on August 31, 2007. The following operating results are reported as if we acquired American Furniture on January 1, 2007.

	Year Ended December 31,	
	2008	2007 (Pro-forma)
	(in thousands)	
Net sales	$ 130,949	$ 156,635
Cost of sales	104,540	120,739
Gross profit	26,409	35,896
Selling, general and administrative expenses (a)	17,853	20,672
Management fees	500	500
Amortization of intangibles (b)	2,933	2,933
Income from operations	$ 5,123	$ 11,791

Prior period results of operations of American Furniture for the year ended December 31, 2007 include the following pro-forma adjustments:

(a) Selling, general and administrative expenses were reduced by $2.8 million, representing one-time transaction costs incurred by the seller.

(a) A reduction in depreciation expense of $0.1 million as a result of, and derived from, the purchase price allocation in connection with our acquisition of American Furniture in August 2007.

(b) A reduction in charges to amortization of intangible assets totaling $0.7 million, as a result of, and derived from, the purchase price allocation in connection with our acquisition of American Furniture in August 2007.

Fiscal Year Ended December 31, 2008 Compared to Pro-forma Fiscal Year Ended December 31, 2007

Net sales

Net sales for the year ended December 31, 2008 were $130.9 million compared to $156.6 million for the same period in 2007, a decrease of $25.7 million or 16.4%. Stationary product sales decreased approximately $19.0 million for the year ended December 31, 2008 compared to the same period in 2007. Motion and Recliner product sales decreased approximately $5.8 million, while Table and Occasional sales decreased $0.3 million for the year ended December 31, 2008 compared to the same period in 2007. These decreases in sales are due principally to the fire that destroyed the finished goods warehouse and a large part of the manufacturing facility in February 2008. Management believes that the softer economy in 2008 is also responsible, although to a lesser extent, for the decrease in sales volume. We expect sales to continue to decline in 2009 as new housing starts continue to decline significantly and consumers continue to be faced with general economic uncertainty fueled by deteriorating consumer credit markets and lagging consumer confidence as a result of volatile and often erratic financial markets. All of these factors have significantly impacted "big ticket" consumer purchases such as furniture.

Cost of sales

Cost of sales decreased approximately $16.2 million for the year ended December 31, 2008 compared to the same period of 2007 and is due principally to the corresponding decrease in sales. Gross profit as a percent of sales was 20.2% for the year ended December 31, 2008 compared to 22.9% in the corresponding period in 2007. This decrease in margin is attributable to raw material price increases in 2008, particularly foam and steel, and to a lesser extent labor inefficiencies incurred in the manufacturing recovery process due to multiple temporary production facilities being utilized for much of the year and associated overtime costs incurred, resulting from the fire in February 2008. As of November 7, 2008, we have rebuilt our primary production facility destroyed in the fire, and as such do not expect to incur additional labor inefficiency costs in the future. Recently, raw material prices for foam and steel have begun to decline. If this decline continues we may realize lower raw material costs as a percent of total cost of sales in 2009.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2008 decreased approximately $2.8 million over the corresponding period in 2007. This decrease is primarily due to the business interruption insurance proceeds

recorded during the period of approximately $3.1 million. Also contributing to the decrease was a reduction of $0.5 million in commissions paid and $0.4 million in insurance expense during the period due to significant reduction in net sales caused by the fire. These decreases were offset in part by increases in fuel costs of $0.5 million and increases in property taxes and legal costs of $0.7 million during the year ended December 31, 2008 compared to 2007.

Income from operations

Income from operations decreased approximately $6.7 million for the year ended December 31, 2008 over the corresponding period in 2007, primarily due to the decrease in net sales, related gross profit margins and other factors as described above.

Anodyne

Overview

Anodyne, headquartered in Coral Springs, Florida is a specialty designer, manufacturer and distributor of medical devices, specifically support surfaces and patient positioning devices and was formed in February 2006 to purchase the assets and operations of AMF Support Surfaces, Inc ("AMF") and SenTech Medical Systems, Inc. ("SenTech") on February 15, 2006. On October 5, 2006, Anodyne purchased a third manufacturer and distributor of patient positioning devices, Anatomic Concepts, Inc. ("Anatomic"). Anatomic operations were merged into the AMF operations. On June 27, 2007 Anodyne purchased PrimaTech Medical Systems, Inc. ("PrimaTech"), a distributor of medical support surfaces focusing on the lower price point long-term and home care markets.

The medical support surfaces industry is fragmented and comprised of many small participants and niche manufacturers. Anodyne's consolidation platform marks the first opportunity for customers to source all leading support surface technologies for the acute care, long term care and home health care from a single source. Anodyne is a vertically integrated company with engineering, design and research, manufacturing and support performed in house to quickly bring new products to market and maintain strict quality standards.

Anodyne's strategy for approaching this market includes offering its customers consistently high quality, FDA compliant products on a national basis, leveraging its scale to provide industry leading research and development while pursuing cost savings through purchasing scale and operational efficiencies. Anodyne began operations on February 15, 2006 and as such, the following comparative results of operation reflect only ten and one-half months of operations in fiscal 2006. We purchased Anodyne from CGI on July 31, 2006.

Results of Operations

The table below summarizes the results of operations for Anodyne for the fiscal years ending December 31, 2008 and 2007 and the pro-forma results of operations for the period ended December 31, 2006. We purchased a controlling interest in Anodyne on July 31, 2006. The following results of operations are reported as if we acquired Anodyne on February 15, 2006 (its inception).

	Year Ended December 31,		
	2008	2007	2006 (Pro-forma)
		(in thousands)	
Net sales	$ 54,199	$ 44,189	$ 23,367
Cost of sales	40,683	33,073	17,505
Gross profit	13,516	11,116	5,862
Selling, general and administrative expenses (a)	7,455	6,502	4,596
Management fees	350	350	305
Amortization of intangibles	1,483	1,328	709
Income from operations	$ 4,228	$ 2,936	$ 252

Prior period results of operations of Anodyne for the year ended December 31, 2006 include the following pro-forma adjustment:

(a) Selling, general and administrative expenses were reduced by $1.0 million in 2006, representing an adjustment for one-time transaction costs incurred by the seller as a result of our purchase.

Fiscal Year Ended December 31, 2008 Compared to Fiscal Year Ended December 31, 2007

Net sales

Net sales for the year ended December 31, 2008 were approximately $54.2 million compared to approximately $44.2 million for the same period in 2007, an increase of $10.0 million or 22.7%. Sales reflecting new product introductions to new customers, year over year growth to existing customers and price increases totaled approximately $9.0 million. Sales associated with PrimaTech, which was purchased in June 2007, accounted for $1.0 million of this increase. During the fourth quarter of 2008, the general economic slowdown in the United States showed significant signs of contraction in health care capital budgets. We expect this trend to continue through fiscal 2009 which may have a negative impact over the purchasing of support surfaces and patent positioning devices.

Cost of sales

Cost of sales increased approximately $7.6 million for the year ended December 31, 2008 compared to the same period in 2007 and is principally due to the corresponding increases in sales, raw material costs and manufacturing infrastructure costs. Gross profit as a percent of sales decreased slightly to approximately 24.9% for the year ended December 31, 2008 compared to 25.2% in the same period of 2007. This decrease is due to increases in manufacturing infrastructure costs, raw materials and the timing between cost increases and sales price increases. Raw materials, particularly polyurethane foam and fabric generally represent approximately 50% of cost of sales.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2008 increased approximately $1.0 million compared to the same period in 2007. This increase is largely the result of increased costs associated with the acquisition of PrimaTech totaling $0.4 million and $0.7 million of increased costs related to administrative staff and associated costs necessary to support the increase in sales, and new product development. These increases were offset in part by a reduction in costs totaling $0.1 million, attributable to Hollywood Capital, a former management group that was comprised of the former CEO and CFO. The Hollywood Capital management services agreement was terminated in October 2008. We expect annual savings of approximately $0.7 million going forward as a result of terminating the Hollywood Capital arrangement.

Amortization expense

Amortization expense increased approximately $0.2 million in the year ended December 31, 2008 compared to the corresponding period in 2007, due principally to the full year impact of amortization in fiscal 2008 in connection with the intangible assets realized as part of the add-on acquisition of PrimaTech in June 2007.

Income from operations

Income from operations increased approximately $1.3 million to $4.2 million for the year ended December 31, 2008 compared to the same period in 2007, principally as a result of the significant increase in net sales offset in part by higher infrastructure costs necessary to support the increase in sales volume and other factors described above.

Fiscal Year Ended December 31, 2007 Compared to Pro-forma Fiscal Year Ended December 31, 2006

Net sales

Net sales for the year ended December 31, 2007 were $44.2 million compared to $23.4 million for the same period in 2006, an increase of $20.8 million, or 89.1%. Sales associated with Anatomic, which was purchased in October 2006, accounted for $9.1 million of this increase and sales associated with PrimaTech, purchased in June 2007 accounted for approximately $2.6 million of this increase. Sales reflecting new product introductions to new customers and year over year growth to existing customers totaled approximately $5.9 million. The remaining increase in net sales is a function of twelve months of activity in 2007 compared to ten and one-half months of activity in 2006.

Cost of sales

Cost of sales increased approximately $15.6 million for the year ended December 31, 2007 compared to the same period in 2006 and is principally due to the corresponding increase in sales and manufacturing infrastructure costs. Gross profit as a percent of sales remained relatively constant for the year ended December 31, 2007 compared to 2006.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2007 increased $1.9 million compared to the same period in 2006. This increase is largely the result of increases in administrative staff and associated costs necessary to support the increase in sales and new product development.

Amortization expense

Amortization expense increased approximately $0.6 million in the year ended December 31, 2007 compared to the corresponding period in 2006, due principally to the full year impact of amortization in fiscal 2007, and the effect of amortization expense resulting from the acquisition of Anatomic in October 2006 and PrimaTech in June 2007.

Income from operations

Income from operations increased approximately $2.7 million to $2.9 million for the year ended December 31, 2007 compared to the same period in 2006, principally as a result of the significant increase in net sales offset in part by higher infrastructure costs necessary to support the increase in sales volume and other factors described above.

CBS Personnel

Overview

CBS Personnel, a provider of temporary staffing services in the United States, provides a wide range of human resource services, including temporary staffing services, employee leasing services, and permanent staffing and temporary-to-permanent placement services. CBS Personnel serves over 6,500 corporate and small business clients and during an average week places over 38,000 employees in a broad range of industries, including manufacturing, transportation, retail, distribution, warehousing, automotive supply, construction, industrial, healthcare and financial sectors.

CBS Personnel's business strategy includes maximizing production in existing offices, increasing the number of offices within a market when conditions warrant, and expanding organically into contiguous markets where it can benefit from shared management and administrative expenses. CBS Personnel typically enters new markets through acquisition. In keeping with these strategies, on January 21, 2008, CBS Personnel acquired Staffmark Investment LLC and its subsidiaries. This acquisition gave CBS Personnel a presence in Arkansas, Tennessee, Colorado, Oklahoma, and Arizona, while significantly increasing its presence in California, Texas, the Carolinas, New York and the New England area. While no specific acquisitions are currently contemplated at this time, CBS Personnel continues to view acquisitions as an attractive means to enter new geographic markets.

Fiscal 2008 was a very difficult year for the temporary staffing industry. The already-weak economic conditions and employment trends in the U.S., present at the start of 2008, continued to worsen as the year progressed. The most notable deterioration occurred in the fourth quarter of 2008 as the economic slowdown became more evident.

According to the U.S. Bureau of Labor Statistics, during 2008, the U.S. economy lost 2.6 million jobs, compared with 2.1 million jobs created in 2006 and 1.1 million in 2007. Temporary staffing was impacted especially hard, posting 21 consecutive months of year-over-year declines. In fact, the rate of temporary job losses accelerated throughout the year, with the December 2008 drop being the highest in this cycle resulting in almost immediate deterioration of employment markets and temporary staffing.

On February 27, 2009, CBS Personnel rebranded its businesses under the Staffmark brand. In connection with this rebrand, the CBS trade name of $10.6 million, which is reflected as an indefinite lived intangible asset at December 31, 2008, will be adjusted to its estimated fair value and converted to a finite lived asset, subject to amortization, beginning in the first quarter of 2009.

Results of Operations

The table below summarizes the pro-forma income from operations for CBS Personnel for each of the fiscal years ended December 31, 2008, 2007 and 2006 prepared as if Staffmark and CBS were acquired on January 1, 2006.

	Years Ended December 31,		
		(Pro-forma)	
	2008	2007	2006
		(in thousands)	
Service revenues	$ 1,037,418	$ 1,153,144	$ 1,175,255
Cost of services	859,026	951,272	968,632
Gross profit	178,392	201,872	206,623
Staffing, selling, general and administrative expenses (a)	155,453	163,193	162,308
Management fees (b)	1,761	1,930	1,977
Amortization of intangibles (c)(d)	5,082	5,155	5,116
Income from operations	$ 16,096	$ 31,594	$ 37,222

Combined results of operations of CBS Personnel and Staffmark for the years ended December 31, 2008, 2007 and 2006 include the following pro-forma adjustments:

(a) A decrease in staffing, selling, general and administrative expenses in 2006 totaling $0.3 million, which reflects transaction costs incurred by CBS Personnel as a result of, and derived from, our acquisition of CBS Personnel in May 2006.

(b) An increase in management fees totaling $0.9 million in 2007 and 2006 reflecting quarterly fees that would have been due to our Manager in connection with our Management Services Agreement based on the incremental Staffmark net revenues

(c) An increase in amortization of intangible assets totaling $0.3 million, $4.0 million and $4.0 million in 2008, 2007 and 2006, respectively, reflecting increased amortization expense as a result of, and derived from, the purchase price allocation in connection with CBS Personnel's acquisition of Staffmark in January 2008.

(d) A decrease in amortization of intangible assets in 2006 totaling $1.6 million reflecting an adjustment for deferred loan origination fees, the balance of which was written off as a result of our acquisition of CBS Personnel in May 2006.

Pro-forma Fiscal Year Ended December 31, 2008 compared to Pro-forma Fiscal Year Ended December 31, 2007

Service revenues

Revenues for the year ended December 31, 2008 decreased approximately $115.7 million, or 10.0%, compared to the same period in 2007. The reduction in revenues reflects reduced demand for temporary staffing services (primarily clerical and light industrial) as a result of the downturn in the economy. Approximately $3.2 million of the decrease is related to reduced revenues for permanent staffing services as clients were affected by weaker economic conditions. Until we witness sustained temporary staffing job creation and signs of a strengthening global economy, we expect to continue to experience revenue declines, through fiscal 2009.

Cost of services

Cost of services for the year ended December 31, 2008 decreased approximately $92.2 million compared to the same period in 2007. This decrease is principally the direct result of the decrease in service revenues. Gross margin was approximately 17.2% and 17.5% of revenues for the years ended December 31, 2008 and December 31, 2007, respectively. The decrease in margins is primarily the result of reduced permanent staffing services, which carries a higher profit margin.

Staffing, selling, general and administrative expenses

Staffing, selling, general and administrative expenses for the year ended December 31, 2008 decreased approximately $7.7 million compared to the same period in 2007. Comparative year over year staffing, selling, general and administrative costs decreased approximately $15.1 million principally due to achievement of synergies from the Staffmark acquisition and cost reduction efforts in response to the economic downturn. This decrease was offset by approximately $7.4 million in one-time integration costs associated with the integration of the Staffmark operations during 2008. We have taken measures beginning in the fourth quarter of 2008 to reduce overhead costs, consolidate facilities and close unprofitable branches in order to mitigate the negative impact of the current economic environment. This cost reduction program will continue through fiscal 2009. These cost savings will be offset in part by additional Staffmark integration and one-time costs of approximately $1.3 million in 2009

Management fees

Management fees are based on a formula of net revenues. The decrease in management fees in 2008 compared to 2007 is a direct result of the decrease in revenues in 2008 compared to 2007. The decrease was offset by an additional $0.5 million paid to a separate manager of Staffmark, unrelated to CGM.

Income from operations

The weakened economy significantly affected our operating results in fiscal 2008. For the year ended December 31, 2008, income from operations decreased approximately $15.5 million to approximately $16.1 million compared to the same period in 2007. Based on the impact that the current economic deterioration has had and will continue to have on the employment markets and temporary staffing industry, and other factors described above, we expect income from operations to decline significantly in 2009.

Pro-forma Fiscal Year Ended December 31, 2007 Compared to Pro-forma Fiscal Year Ended December 31, 2006

Service revenues

Revenues for the year ended December 31, 2007 decreased approximately $22.1 million, or 1.9%, over the corresponding period in 2006. Severe winter storms affected many clients, curtailing their operations. The remaining reduction reflects reduced demand for staffing services (primarily clerical and light industrial) as clients were affected by weaker economic conditions.

Cost of services

Cost of services for the year ended December 31, 2007 decreased approximately $17.4 million, or 1.8%, from the same period a year ago as a result of reduced demand for staffing services. Gross margin was approximately 17.5% and 17.6% of revenues for the year ended December 31, 2007 and 2006, respectively. This slight decrease is primarily the result of higher worker's compensation expenses.

Staffing, selling, general and administrative expenses

Staffing, selling, general and administrative expenses for the year ended December 31, 2007 increased approximately $0.9 million when compared to the same period in 2007. This increase is primarily related to higher staff compensation costs in 2007.

Income from operations

Income from operations decreased approximately $5.6 million for the year ended December 31, 2007 compared to the same period in 2006 based on the factors described above.

Fox

Overview

Fox, headquartered in Watsonville, California, is a branded action sports company that designs, manufactures and markets high-performance suspension products for mountain bikes, snowmobiles, motorcycles, all-terrain vehicles ATVs, and other off-road vehicles.

Fox's products are recognized by manufacturers and consumers as being among the most technically advanced suspension products currently available in the marketplace. Fox's technical success is demonstrated by its dominance of award winning performances by professional athletes across its suspension products. As a result, Fox's suspension components are incorporated by OEM customers on their high-performance models at the top of their product lines. OEMs capitalize on the strength of Fox's brand to maintain and expand their own sales and margins. In the Aftermarket segment, customers seeking higher performance select Fox's suspension components to enhance their existing equipment.

We purchased a controlling interest in Fox on January 4, 2008. Fox sells to more than 134 OEM and 6,875 Aftermarket customers across its market segments. In each of the years 2008 and 2007, approximately 76% and 75% of net sales were to OEM customers. The remainder was to Aftermarket customers.

Results of Operations

The table below summarizes the results of operations for Fox for the fiscal year ending December 31, 2008 and the pro-forma results of operations for the year ended December 31, 2007. The following operating results are reported as if we acquired Fox on January 1, 2007.

	Year Ended December 31,	
	2008	2007 (Pro-forma)
	(in thousands)	
Net sales	$ 131,734	$ 105,726
Cost of sales (a)	95,844	81,765
Gross profit	35,890	23,961
Selling, general and administrative expenses (b)	19,182	15,818
Management fees (c)	500	500
Amortization of intangibles (d)	5,501	5,233
Income from operations	$ 10,707	$ 2,410

Prior period results of operations of Fox for the year ended December 31, 2007 include the following pro-forma adjustments:

(a) An increase in cost of sales totaling $0.3 million, reflecting additional depreciation expense as a result of, and derived from, the purchase price allocation in connection with our acquisition of Fox in January 2008.

(b) An increase in selling, general and administrative expense totaling $0.1 million reflecting additional depreciation expense as a result of, and derived from, the purchase price allocation in connection with our acquisition of Fox in January 2008.

(c) An increase in management fees totaling $0.5 million reflecting quarterly fees that would have been due to our Manager in connection with our Management Services Agreement.

(d) An increase in amortization of intangible assets totaling $5.2 million reflecting amortization expense as a result of, and derived from, the purchase price allocation in connection with our acquisition of Fox in January 2008.

Fiscal Year Ended December 31, 2008 Compared to Pro-forma Fiscal Year Ended December 31, 2007

Net sales

Net sales for the year ended December 31, 2008 increased $26.0 million, or 24.6%, over the corresponding period in 2007. Sales growth was driven largely by OEM sales in mountain biking and power sports which totaled approximately $100.3 million for the year ended December 31, 2008 compared to $79.0 million in the same period of 2007. This represents an increase of $21.3 million, or 27.0%. Aftermarket sales totaled approximately $31.4 million in 2008 compared to $26.7 million in 2007, an increase of $4.7 million, or 17.6%. These OEM and Aftermarket sales increases are principally the result of well received new model year products, particularly in mountain biking. International OEM and After market sales were $92.5 million in 2008 compared to $70.5 million in 2007 an increase of $22.0 million or 31.2%. In addition, there was a temporary plant shutdown in fiscal 2007 which also contributed, although to a much lesser extent, to the increase in 2008 sales compared to 2007.

Cost of sales

Cost of sales for the year ended December 31, 2008 increased approximately $14.1 million, or 17.2%, over the corresponding period in 2007. The increase in cost of sales is primarily attributable to the increase in net sales for the same period. Gross profit as a percentage of sales increased to 27.2% at December 31, 2008 from 22.7% at December 31, 2007, largely due to improved manufacturing efficiencies associated with the overall increase in sales and lower freight costs as supply chain improvements reduced the necessity to air ship product, offset in part by increased raw material costs.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2008 increased $3.4 million over the corresponding period in 2007. This increase is the result of increases in administrative, engineering, sales and marketing costs to drive and support the significant sales growth. Marketing costs increased $1.6 million and research and development costs increased $0.6 million in 2008 compared to 2007.

Income from operations

Income from operations for the year ended December 31, 2008 increased approximately $8.3 million over the corresponding period in 2007 based principally on the significant increase in sales and related gross profit and other factors, described above.

HALO

Overview

Operating under the brand names of HALO and Lee Wayne, headquartered in Sterling, IL, HALO is an independent provider of customized drop-ship promotional products in the U.S. Through an extensive group of dedicated sales professionals, HALO serves as a one-stop shop for over 40,000 customers throughout the U.S. HALO is involved in the design, sourcing, management and fulfillment of promotional products across several product categories, including apparel, calendars, writing instruments, drink ware and office accessories. HALO's sales professionals work with customers and vendors to develop the most effective means of communicating a logo or marketing message to a target audience. Approximately 95% of products sold are drop shipped, resulting in minimal inventory risk. HALO has established itself as a leader in the promotional products and marketing industry through its focus on service through its approximately 700 account executives.

HALO acquired Goldman Promotions, a promotional products distributor, in April 2008, and the promotional products distributor division of Eskco, Inc., in November 2008.

Distribution of promotional products is seasonal. Typically, HALO expects to realize approximately 45% of its sales and 70% of its operating income in the months of September through December, due principally to calendar sales and corporate holiday promotions.

Results of Operations

The table below summarizes the results of operations for HALO for the fiscal year ending December 31, 2008 and the pro-forma results of operations for the year ended December 31, 2007. We purchased a controlling interest in HALO on February 28, 2007. The following operating results are reported as if we acquired HALO on January 1, 2007.

	Year Ended December 31,	
	2008	2007 (Pro-forma)
	(in thousands)	
Net sales	$ 159,797	$ 144,342
Cost of sales	98,845	88,939
Gross profit	60,952	55,403
Selling, general and administrative expenses (a)	52,806	47,069
Management fees (b)	500	500
Amortization of intangibles (c)	2,357	2,110
Income from operations	$ 5,289	$ 5,724

Prior period results of operations of HALO for the year ended December 31, 2007 includes the following pro-forma adjustments:

(a) An increase in selling, general and administrative expense totaling $0.3 million reflecting additional depreciation expense as a result of, and derived from, the purchase price allocation in connection with our acquisition of HALO in February 2007.

(b) An increase in management fees totaling $0.1 million, reflecting additional quarterly fees that would have been due to our Manager in connection with our Management Services Agreement.

(c) An increase in amortization of intangible assets totaling $0.3 million reflecting additional amortization expense as a result of, and derived from, the purchase price allocation in connection with our acquisition of HALO in February 2007.

Fiscal Year Ended December 31, 2008 Compared to Pro-forma Fiscal Year Ended December 31, 2007

Net sales

Net sales for the year ended December 31, 2008 were $159.8 million, compared to $144.3 million for the same period in 2007, an increase of $15.5 million or 10.7%. Sales increases to accounts from acquisitions made in 2008 and 2007 accounted for approximately $22.8 million of increased sales offset by a decrease in sales to existing customers totaling approximately $7.3 million. This decrease in sales to existing customers is attributable to decreases in sales order volume

as customers have cut back on merchandising expenditures in response to the economic slowdown and worsening global economic conditions. We expect that current unfavorable economic conditions will continue and may result in lower volume orders from existing customers in 2009 as advertising budgets are continuing to be pared in response to the current economic climate.

Cost of sales

Cost of sales for the year ended December 31, 2008 increased approximately $9.9 million compared to the same period in 2007. The increase in cost of sales is primarily attributable to the increase in net sales for the same period. Gross profit as a percentage of net sales totaled approximately 38.1% and 38.4% of net sales in each of the years ended December 31, 2008 and 2007, respectively. The slight decrease in gross profit as a percent of sales is due to unfavorable product mix.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2008, increased approximately $5.7 million compared to the same period in 2007. This increase is largely the result of increased direct commission expense attributable to the increase in net sales, totaling approximately $2.5 million, increased administrative and personnel costs incurred as a result of the increase in the number of independent sales representatives in 2007, totaling $2.5 million, and one-time integration costs of our 2008 acquisitions, totaling approximately $0.9 million. In response to the severe economic slowdown, HALO plans to reduce overhead costs in 2009 and curtail discretionary spending by approximately $2.0 million in order to more appropriately align its cost structure with anticipated reductions in net sales.

Amortization expense

Amortization expense for the year ended December 31, 2008 increased approximately $0.2 million compared to the same period in 2007. This increase is to due principally the amortization expense of intangible assets recognized in connection with the two acquisitions in 2008.

Income from operations

Income from operations decreased approximately $0.4 million for the year ended December 31, 2008 compared to the same period in 2007 due principally to the decrease in sales to existing customers and the increase in integration costs and other administrative costs associated with the acquisitions made in 2008, offset in part by the increase in gross profit contributions from sales associated with the acquisitions.

Liquidity and Capital Resources

At December 31, 2008, on a consolidated basis, cash flows provided by operating activities totaled approximately $40.5 million, which reflects the results of operations of six of our businesses for year ended December 31, 2008 and the results of operations of our 2008 dispositions for approximately six months. Significant non-cash charges reflected in operating cash flow includes: (i) depreciation and amortization charges totaling $35.0 million; (ii) supplemental put expense totaling $6.4 million and (iii) noncontrolling interest in net income totaling $4.0 million.

Cash flows used in investing activities totaled approximately $22.5 million, which reflects the costs to acquire Fox, and Staffmark of approximately $157.2 million, the costs associated with additional add-on acquisitions at the segment level totaling approximately $10.3 million and capital expenditures of approximately $11.6 million offset in part by the net proceeds received from the sale of Aeroglide and Silvue totaling approximately $154.2 million.

Cash flows used in financing activities totaled approximately $39.8 million, principally reflecting distributions paid to shareholders during the year totaling $41.5 million offset in part by net borrowings on our Credit Facility totaling $2.5 million.

At December 31, 2008 we had approximately $97.5 million of cash and cash equivalents on hand and the following outstanding loans due from each of our businesses:

- Advanced Circuits — approximately $60.1 million;
- American Furniture — approximately $70.8 million;
- Anodyne — approximately $18.8 million;
- CBS Personnel — approximately $110.6 million;
- Fox — approximately $50.1 million; and
- HALO — approximately $51.6 million.

Each loan has a scheduled maturity and each business is entitled to repay all or a portion of the principal amount of the outstanding loans, without penalty, prior to maturity. At December 31, 2008, all of our businesses were in compliance with their financial covenants with us.

Our primary source of cash is from the receipt of interest and principal on our outstanding loans to our businesses. Accordingly, we are dependent upon the earnings and cash flow of these businesses, which are available for (i) operating expenses; (ii) payment of principal and interest under our Credit Agreement,; (iii) payments to CGM due or potentially due pursuant to the Management Services Agreement, the LLC Agreement, and the Supplemental Put Agreement; (iv) cash distributions to our shareholders and (v) investments in future acquisitions. Payments made under (iii) above are required to be paid before distributions to shareholders and may be significant and exceed the funds held by us, which may require us to dispose of assets or incur debt to fund such expenditures. A non-cash charge to earnings of approximately $7.4 million was recorded during the year ended December 31, 2007 in order to recognize our estimated, potential liability in connection with the Supplemental Put Agreement between us and CGM. Approximately $14.9 million of the accrued profit allocation was paid in the third quarter of fiscal 2008 in connection with the sale of Aeroglide and Silvue. A liability of approximately $13.4 million is reflected in our consolidated balance sheet, which represents our estimated liability for this obligation at December 31, 2008.

We believe that we currently have sufficient liquidity and capital resources, which include our amounts available under the Revolving Credit Facility, to meet our existing obligations, including quarterly distributions to our shareholders, as approved by our Board of Directors, over the next twelve months.

On December 7, 2007 we amended our existing $250 million credit facility with a group of lenders led by Madison Capital, LLC. The Credit Agreement provides for a Revolving Credit Facility totaling $340 million which matures in November 2012 and a Term Loan Facility totaling $153 million. The Term Loan Facility requires quarterly payments of $0.5 million that commenced March 31, 2008 with a final payment of the outstanding principal balance due on December 7, 2013. The Revolving Credit Facility matures on December 7, 2012. The Credit Agreement permits the Company to increase, over the next two years, the amount available under the Revolving Credit Facility by up to $10 million and the Term Loan Facility by up to $145 million, subject to certain restrictions and Lender approval.

The Revolving Credit Facility allows for loans at either base rate or LIBOR. Base rate loans bear interest at a fluctuating rate per annum equal to the greater of (i) the prime rate of interest published by the Wall Street Journal and (ii) the sum of the Federal Funds Rate plus 0.5% for the relevant period, plus a margin ranging from 1.50% to 2.50% based upon the ratio of total debt to adjusted consolidated earnings before interest expense, tax expense, and depreciation and amortization expenses for such period (the “Total Debt to EBITDA Ratio”). LIBOR loans bear interest at a fluctuating rate per annum equal to the London Interbank Offer Rate, or LIBOR, for the relevant period plus a margin ranging from 2.50% to 3.50% based on the Total Debt to EBITDA Ratio We are required to pay commitment fees ranging between 0.75% and 1.25% per annum on the unused portion of the Revolving Credit Facility. At December 31, 2008 we had no borrowings outstanding under our Revolving Credit Facility and $289.3 million available.

The Term Loan Facility bears interest at either base rate or LIBOR. Base rate loans bear interest at a fluctuating rate per annum equal to the greater of (i) the prime rate of interest published by the Wall Street Journal and (ii) the sum of the Federal Funds Rate plus 0.5% for the relevant period plus a margin of 3.0%. LIBOR loans bear interest at a fluctuating rate per annum equal to the London Interbank Offer Rate, or LIBOR, for the relevant period plus a margin of 4.0%.

On January 22, 2008 we entered into a three-year interest rate swap agreement with our bank lenders, fixing the rate of $140 million at 7.35% on a like amount of variable rate Term Loan Facility borrowings. The interest rate swap is intended to mitigate the impact of fluctuations in interest rates and effectively converts $140 million of our floating-rate Term Loan Facility to a fixed rate basis for a period of three years.

On February 18, 2009, we repaid $75.0 million of our outstanding Term Loan Facility. The balance of our Term Loan Facility subsequent to the repayment was $78.0 million.

On February 18, 2009, we terminated $70.0 million of our outstanding interest rate swap in connection with the repayment of the Term Loan Facility. Termination fees totaled $2.5 million, which represented the fair value of the swap as of February 18, 2009.

Our Term Loan Facility received a B1 rating from Moody’s Investors Service (“Moody’s”), and a BB- rating from Standard and Poor’s Rating Services and our Revolving Credit Facility received a Ba1 rating from Moody’s, reflective of our strong cash flow relative to debt, and industry diversification of our businesses.

We intend to use the availability under our Credit Agreement to pursue acquisitions of additional businesses to the extent permitted under our Credit Agreement and to provide for working capital needs.

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

(in thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007
Net income attributable to Holdings	$ 78,294	$ 40,368
Adjustment to reconcile net income to cash provided by operating activities		
Depreciation and amortization	35,021	24,107
Supplemental put expense	6,382	7,400
Noncontrolling shareholders' notes and other	2,827	1,080
Noncontrolling interest	4,042	11,940
Deferred taxes	(8,911)	(1,295)
Gain on sales of businesses	(73,363)	(35,834)
Amortization of debt issuance cost	1,969	1,224
Other	381	86
Changes in operating assets and liabilities	(6,093)	(7,304)
Net cash provided by operating activities	40,549	41,772
Plus:		
Unused fee on Revolving Credit Facility (1)	3,139	2,665
Staffmark integration and restructuring	8,826	
Changes in operating assets and liabilities	6,093	7,304
Less:		
Maintenance capital expenditures (2)		
Advanced Circuits	983	396
Aeroglide	210	420
American Furniture	1,438	140
Anodyne	1,425	1,521
Fox	1,601	—
CBS Personnel	1,589	2,148
HALO	795	326
Silvue	—	455
Estimated cash flow available for distribution	$ 50,566	$ 46,335
Distribution paid April	$ (10,246)	$ (6,135)
Distribution paid July	(10,246)	(9,458)
Distribution paid October	(10,718)	(10,246)
Distribution paid January	(10,718)	(10,246)
Total distributions	$ (41,928)	$ (36,085)

(1) Represents the commitment fee on the unused portion of our Revolving Credit Facility.

(2) Represents maintenance capital expenditures that were funded from operating cash flow and excludes approximately $3.5 million and $3.3 million of growth capital expenditures for the year ended December 31, 2008 and 2007, respectively.

Cash flows of certain of our businesses are seasonal in nature. Cash flows from American Furniture are typically highest in the months of March through June of each year, coinciding with homeowners' tax refunds. Cash flows from CBS Personnel are typically lower in the first quarter of each year than in other quarters due to reduced seasonal demand for temporary staffing services and to lower gross margins during that period associated with the front-end loading of certain taxes and other payments associated with payroll paid to our employees. Cash flows from HALO are typically highest in the months

of September through December of each year primarily as the result of calendar sales and holiday promotions. HALO generates approximately two-thirds of its operating income in the months of September through December

Related Party Transactions and Certain Transactions Involving our Businesses

We have entered into the following related party transactions with our Manager, CGM:

- Management Services Agreement
- LLC Agreement
- Supplemental Put Agreement
- Cost Reimbursement and Fees

Management Services Agreement - We entered into a management services agreement ("Management Services Agreement") with CGM effective May 16, 2006. The Management Services Agreement provides for, among other things, CGM to perform services for us in exchange for a management fee paid quarterly and equal to 0.5% of our adjusted net assets. We amended the Management Services Agreement on November 8, 2006, to clarify that adjusted net assets are not reduced by non-cash charges associated with the Supplemental Put Agreement, which amendment was unanimously approved by the Compensation Committee and the Board of Directors. The management fee is required to be paid prior to the payment of any distributions to shareholders. For the year ended December 31, 2008, 2007 and 2006, we incurred $14.7 million, $10.1 million and $4.2 million, respectively, in management fees to CGM.

CBS Personnel paid management fees of approximately $0.5 million for the year ended December 31, 2008 to a separate manager of Staffmark, unrelated to CGM.

LLC Agreement - As distinguished from its provision of providing management services to us, pursuant to the Management Services Agreement, CGM is the owner of 100% of the Allocation Interests in us. CGM paid $0.1 million for these Allocation Interests and has the right to cause us to purchase the Allocation Interests it owns. The Allocation Interests give CGM the right to distributions pursuant to a profit allocation formula upon the occurrence of certain events. Certain events include, but are not limited to, the dispositions of subsidiaries. In connection with the dispositions of Silvue and Aeroglide in 2008 we paid CGM a profit allocation of $14.9 million. In connection with the disposition of Crosman in 2006, we paid CGM a profit allocation of $7.9 million.

Supplemental Put Agreement - Concurrent with the IPO, we and CGM entered into a Supplemental Put Agreement, which may require us to acquire the Allocation Interests, described above, upon termination of the Management Services Agreement. Essentially, the put rights granted to CGM require us to acquire CGM's Allocation Interests in us at a price based on a percentage of the increase in fair value in our businesses over our basis in those businesses. Each fiscal quarter we estimate the fair value of our businesses for the purpose of determining our potential liability associated with the Supplemental Put Agreement. Any change in the potential liability is accrued currently as a non-cash adjustment to earnings. For the years ended December 31, 2008, 2007 and 2006, we recognized approximately $6.4 million, $7.4 million and $22.5 million in expense related to the Supplemental Put Agreement.

Cost Reimbursement and Fees

We reimbursed our Manager, CGM, approximately $2.6 million, $1.8 million and $0.7 million, principally for occupancy and staffing costs incurred by CGM on our behalf during the years ended December 31, 2008, 2007 and 2006, respectively.

CGM acted as an advisor for each of the 2008 acquisitions (Fox and Staffmark) for which it received transaction service and expense payments of approximately $2.0 million. CGM acted as an advisor for each of the 2007 acquisitions (Aeroglide, HALO and American Furniture) for which it received transaction service and expense payments of approximately $2.1 million.

We have entered into the following related party transactions with our subsidiaries:

Anodyne

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

balance of the Note plus accrued interest totaled approximately $6.4 million at December 31, 2007. The Note was to mature on August 15, 2008. We recorded interest income totaling $0.5 million, $0.8 million and $0.3 million in 2008, 2007 and 2006, respectively, related to this note.

CGM acted as an advisor to us in the Anodyne transaction for which it received transaction services fees and expense payments totaling approximately $0.3 million in 2006.

On August 8, 2008 we exchanged the aforementioned Note, due August 15, 2008, totaling approximately $6.9 million (including accrued interest) due from the former CEO of Anodyne in exchange for shares of stock of Anodyne held by the CEO. In addition, the former CEO of Anodyne was granted an option to purchase approximately 10% of the outstanding shares of Anodyne, at a strike price exceeding the exchange price, from us in the future for which the former CEO exchanged Anodyne stock valued at $0.2 million (the fair value of the option at the date of grant) as consideration.

In addition, on August 5, 2008 we exchanged $1.5 million in term debt due from Anodyne for 15,500 shares of common stock and 13,950 shares of convertible preferred stock of Anodyne.

As a result of the above transactions our ownership percentage in Anodyne increased to approximately 67% on a primary basis and 57% on a fully diluted basis.

Advanced Circuits

In connection with the acquisition of Advanced Circuits by CGI in September 2005, Advanced Circuits loaned certain officers and members of management of Advanced Circuits $3.4 million for the purchase of 136,364 shares of Advanced Circuit's common stock. On January 1, 2006, Advanced Circuits loaned certain officers and members of management of Advanced Circuits $4.8 million for the purchase of an additional 193,366 shares of Advanced Circuit's common stock. The notes bear interest at 6% and interest is added to the notes. The notes are due in September 2010 and December 2010 and are subject to mandatory prepayment provisions if certain conditions are met.

In connection with the issuance of the notes as described above, Advanced Circuits implemented a performance incentive program whereby the notes could either be partially or completely forgiven based upon the achievement of certain pre-defined financial performance targets. The measurement date for determination of any potential loan forgiveness is based on the financial performance of Advanced Circuits for the fiscal year ended December 31, 2010. We believe that the achievement of the loan forgiveness is probable and is accruing any potential forgiveness over a service period measured from the issuance of the notes until the actual measurement date of December 31, 2010. During each of the fiscal years 2008, 2007 and 2006, ACI accrued approximately $1.6 million for this loan forgiveness. This expense has been classified as a component of general and administrative expense. Approximately $5.2 million and $3.7 million is reflected as a component of other non-current liabilities in the consolidated balances sheets as of December 31, 2008 and 2007, respectively, in connection with these two agreements.

On October 10, 2007, we entered into an amendment to our Loan Agreement (the "Amendment") with ACI, to amend that certain loan agreement, dated as of May 16, 2006, between us and ACI (the "Loan Agreement"). The Loan Agreement was amended to (i) provide for additional term loan borrowings of $47.0 million and to permit the proceeds thereof to fund cash distributions totaling $47.0 million by ACI to Compass AC Holdings, Inc. ("ACH"), ACI's sole shareholder, and by ACH to its shareholders, including us, (ii) extend the maturity dates of the loans under the Loan Agreement, and (iii) modify certain financial covenants of ACI under the Loan Agreement. Our share of the cash distribution was approximately $33.0 million with approximately $14.0 million being distributed to ACH's other shareholders. All other material terms and conditions of the Loan Agreement were unchanged.

American Furniture

AFM's largest supplier, Independent Furniture Supply ("Independent"), is 50% owned by Mike Thomas, AFM's CEO. AFM purchases polyfoam from Independent on an arms-length basis and AFM performs regular audits to verify market pricing. AFM does not have any long-term supply contracts with Independent. Total purchases from Independent during 2008 totaled approximately $18.4 million. From August 31, 2007 (acquisition date) to December 31, 2007, purchases from Independent totaled approximately $8.4 million.

Fox

Fox leases its principal manufacturing and office facilities in Watsonville, California from Robert Fox, a founder, Chief Engineering Officer and noncontrolling shareholder of Fox. The term of the lease is through July of 2018 and the rental payments can be adjusted annually for a cost-of-living increase based upon the consumer price index. Fox is responsible for all real estate taxes, insurance and maintenance related to this property. The leased facilities are 86,000 square feet and Fox paid rent under this lease of approximately $1.0 million for the year ended December 31, 2008.

Other

We reimbursed CGI, which owns 22.3% of the Trust shares, approximately $2.5 million for costs incurred by CGI in connection with our IPO in 2006.

Contractual Obligations and Off-Balance Sheet Arrangements

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

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

The table below summarizes the payment schedule of our contractual obligations at December 31, 2008.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations (1)	$209,333	$ 88,282	$26,112	$ 90,859	$ 4,080
Capital lease obligations	1,340	485	477	378	—
Operating lease obligations (2)	53,201	13,503	18,040	9,696	11,962
Purchase obligations (3)	133,515	73,983	31,794	27,738	—
Supplemental put obligation (4)	13,411	—	—	—	—
	$410,800	$176,253	$76,423	$128,671	$16,042

(1) Reflects commitment fees and letter of credit fees under our Revolving Credit Facility and amounts due, together with interest on our Term Loan Facility. We paid $75.0 million of our Term Loan Facility on February 18, 2009. This payment is reflected in the "less than 1 year" column. The impact of a reduction in future interest expense related to this payment has also been reflected in the above table.

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

(3) Reflects non-cancelable commitments as of December 31, 2008, including: (i) shareholder distributions of $42.9 million, (ii) management fees of $13.8 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 fiscal quarter. The amount approved for future quarters may differ from the amount included in this schedule.

(4) The supplemental put obligation represents the long-term portion of an estimated liability accrued as if our Management Services Agreement with CGM had been terminated. This agreement has not been terminated and there is no basis upon which to determine a date in the future, if any, that this amount will be paid.

The table does not include the long-term portion of the actuarially developed reserve for workers compensation, which does not provide for annual estimated payments beyond one year. This liability, totaling approximately $40.9 million at December 31, 2008, is included in our consolidated balance sheet as a component of workers' compensation liability.

Critical Accounting Estimates

The following discussion relates to critical accounting policies for the Company, the Trust and each of our businesses.

The preparation of our financial statements in conformity with GAAP will require 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. Our critical accounting estimates are discussed below. These critical accounting estimates are reviewed by our independent auditors and the audit committee of our board of directors.

Supplemental Put Agreement

In connection with our Management Services Agreement, we entered into a supplemental put agreement with our Manager pursuant to which our Manager has the right to cause the Company to purchase the Allocation Interests then owned by our

Manager upon termination of the management services agreement for a price to be determined in accordance with the supplemental put agreement. We record the supplemental put agreement at its fair value quarterly by recording any change in value through the income statement. The fair value of the supplemental put agreement is largely related to the value of the profit allocation that our Manager, as holder of Allocation Interests, will receive. The valuation of the supplemental put agreement requires the use of complex models, which require highly sensitive assumptions and estimates. The impact of over-estimating or under-estimating the value of the supplemental put agreement could have a material effect on operating results. In addition, the value of the supplemental put agreement is subject to the volatility of our operations which may result in significant fluctuation in the value assigned to this supplemental put agreement.

Derivatives and Hedging

We utilize an interest rate swap (derivative) to manage risks related to interest rates on the last $140.0 million of our Term Loan Facility. Accounting for derivatives as hedges requires that, at inception and over the term of the arrangement, the hedged item and related derivative meet the requirements for hedge accounting. The rules and interpretations related to derivatives accounting are complex. Failure to apply this complex guidance correctly will result in all changes in the fair value of the derivative being reported in earnings, without regard to the offsetting changes in the fair value of the hedged item. Currently the change in fair value is reflected in other comprehensive income.

At December 31, 2008, derivative liabilities were $5.2 million and represented the mark-to-market unrealized loss on our interest rate swap.

On February 18, 2009, the Company terminated a portion of its Swap in connection with the repayment of $75.0 million of the Term Loan Facility. In connection with the termination, the Company reclassified $2.6 million from accumulated other comprehensive loss into earnings. Refer to Note S of the consolidated financial statements for additional information.

Revenue Recognition

We recognize revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. Provisions for customer returns and other allowances based on historical experience are recognized at the time the related sale is recognized.

CBS Personnel recognizes revenue for temporary staffing services at the time services are provided by CBS Personnel employees and reports revenue based on gross billings to customers. Revenue from CBS Personnel employee leasing services is recorded at the time services are provided. Such revenue is reported on a net basis (gross billings to clients less worksite employee salaries, wages and payroll-related taxes). We believe that net revenue accounting for leasing services more closely depicts the transactions with its leasing customers and is consistent with guidelines outlined in Emerging Issue Task Force (“EITF”) No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent.* The effect of using this method of accounting is to report lower revenue than would be otherwise reported.

Business Combinations

The acquisitions of our businesses are accounted for under the purchase method of accounting. The amounts assigned to the identifiable assets acquired and liabilities assumed in connection with acquisitions are based on estimated fair values as of the date of the acquisition, with the remainder, if any, to be recorded as identifiable intangibles or goodwill. The fair values are determined by our management team, taking into consideration information supplied by the management of the acquired entities and other relevant information. Such information typically includes valuations supplied by independent appraisal experts for significant business combinations. The valuations are generally based upon future cash flow projections for the acquired assets, discounted to present value. The determination of fair values requires significant judgment both by our management team and by outside experts engaged to assist in this process. This judgment could result in either a higher or lower value assigned to amortizable or depreciable assets. The impact could result in either higher or lower amortization and/or depreciation expense.

Goodwill, Intangible Assets and Property and Equipment

Goodwill represents the excess of the purchase price over the fair value of the assets acquired. Trademarks are considered to be indefinite lived intangibles. Trademarks and goodwill are not amortized. However, we are required to perform impairment reviews at least annually and more frequently in certain circumstances.

The goodwill impairment test is a two-step process, which requires management to make judgments in determining certain assumptions used in the calculation. The first step of the process consists of estimating the fair value of each of our reporting units based on a discounted cash flow model using revenue and profit forecasts and comparing those estimated fair values with the carrying values, which include allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an "implied fair value" of goodwill. The determination of a reporting unit's "implied fair value" of goodwill requires the allocation of the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the "implied fair value" of goodwill, which is then compared to its corresponding carrying value. The impairment test for trademarks requires the determination of the fair value of such assets. If the fair value of the trademark is less than its carrying value, an impairment loss will be recognized in an amount equal to the difference. We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and/or intangible assets. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, and material adverse effects in relationships with significant customers.

Given significant changes in the business climate in the fourth quarter of 2008, we retested goodwill for impairment at two of our reporting units, CBS Personnel and American Furniture at December 31, 2008. In performing this test, we revised our estimated future cash flows, as appropriate, to reflect current market conditions and risk within these industries, as well as market data of our competitors. In each case, no impairment was indicated at this time. If market conditions continue to deteriorate in the markets that CBS Personnel and American Furniture operate, it is likely that we will be required to retest goodwill and indefinite lived intangibles which may result in write downs to their fair value.

The "implied fair value" of reporting units is determined by management and generally is based upon future cash flow projections for the reporting unit, discounted to present value. We use outside valuation experts when management considers that it would be appropriate to do so.

Intangible assets subject to amortization, including customer relationships, non-compete agreements and technology are amortized using the straight-line method over the estimated useful lives of the intangible assets, which we determine based on the consideration of several factors including the period of time the asset is expected to remain in service. We evaluate the carrying value and remaining useful lives of intangible assets subject to amortization whenever indications of impairment are present.

Property and equipment are initially stated at cost. Depreciation on property and equipment is principally computed using the straight-line method over the estimated useful lives of the property and equipment after consideration of historical results and anticipated results based on our current plans. Our estimated useful lives represent the period the asset is expected to remain in service assuming normal routine maintenance. We review the estimated useful lives assigned to property and equipment when our business experience suggests that they may have changed from our initial assessment. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

We perform impairment reviews of property and equipment, when events or circumstances indicate that the value of the assets may be impaired. Indicators include operating or cash flow losses, significant decreases in market value or changes in the long-lived assets' physical condition. When indicators of impairment are present, management determines whether the sum of the undiscounted future cash flows estimated to be generated by those assets is less than the carrying amount of those assets. In this circumstance, the impairment charge is determined based upon the amount by which the carrying value of the assets exceeds their fair value. The estimates of both the undiscounted future cash flows and the fair values of assets require the use of complex models, which require numerous highly sensitive assumptions and estimates.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts on an entity-by-entity basis with consideration for historical loss experience, customer payment patterns and current economic trends. The Company reviews the adequacy of the allowance for doubtful accounts on a periodic basis and adjusts the balance, if necessary. The determination of the adequacy of the allowance for doubtful accounts requires significant judgment by management. The impact of either over or under estimating the allowance could have a material effect on future operating results.

Workers' Compensation Liability

CBS Personnel is an employer with self-insurance and large deductible plans for its worker's compensation exposure. CBS Personnel establishes reserves based upon its experience and expectations as to its ultimate liability for those claims using developmental factors based upon historical claim experience. CBS Personnel continually evaluates the potential for change in loss estimates with the support of qualified actuaries. As of December 31, 2008, CBS Personnel had approximately $67.8 million in workers' compensation liability related to claims, reserves and settlements. The ultimate settlement of this liability could differ materially from the assumptions used to calculate this liability, which could have a material adverse effect on future operating results.

Deferred Tax Assets

Several of our majority owned subsidiaries have deferred tax assets recorded at December 31, 2008 which in total amount to approximately $23.6 million. These deferred tax assets are comprised of reserves not currently deductible for tax purposes. The temporary differences that have resulted in the recording of these tax assets may be used to offset taxable income in future periods, reducing the amount of taxes we might otherwise be required to pay. Realization of the deferred tax assets is dependent on generating sufficient future taxable income. Based upon the expected future results of operations, we believe it is more likely than not that we will generate sufficient future taxable income to realize the benefit of existing temporary differences, although there can be no assurance of this. The impact of not realizing these deferred tax assets would result in an increase in income tax expense for such period when the determination was made that the assets are not realizable. (See Note M – "Income taxes")

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*, or ("SFAS 141R"). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed following existing GAAP until January 1, 2009. We expect SFAS No. 141R will have an impact on our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the effective date. We are still assessing the impact of this standard on our future consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "*Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*", or ("SFAS 160"), which we adopted on January 1, 2009. SFAS 160 will significantly change the accounting and reporting related to a non-controlling interest in a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. After adoption, non-controlling interests will be classified as shareholders' equity, a change from its current classification between liabilities and shareholders' equity. Earnings attributable to noncontrolling interests will be included in net income, although such earnings will continue to be deducted to measure earnings per share. Purchases and sales of noncontrolling interests will be reported in equity. We adopted SFAS 160 effective January 1, 2009, and we have adjusted our financial statements as follows:

- noncontrolling interest of $79.4 million, $21.9 million and $17.7 million have been reclassified from the mezzanine section of the Consolidated Balance Sheets to the equity section of the Consolidated Balance Sheets as of December 31, 2008, December 31, 2007 and December 31, 2006, respectively;
- consolidated net income (loss) for comparative periods presented has been adjusted to include net income attributable to the noncontrolling interest;

- consolidated comprehensive income (loss) has been adjusted for comparative periods to include the comprehensive income (loss) attributable to the noncontrolling interest; and
- net income (loss) and comprehensive income (loss) attributable to Holdings and to the noncontrolling interest are presented separately and earnings per share is based on income (loss) attributable to Holdings' common stockholders.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*", or ("SFAS 161"). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) as well as related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. We are currently evaluating the disclosure implications of this statement.

On April 25, 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" (which we refer to as SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (Revised 2007), "Business Combinations," and other U.S. GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The adoption of this FSP may impact the useful lives we assign to intangible assets that are acquired through future business combinations.

On October 10, 2008, the FASB staff issued Staff Position (FSP) No. SFAS 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*", or ("FSP 157-3"), which amends SFAS No. 157 by incorporating an example to illustrate key considerations in determining the fair value of a financial asset in an inactive market. FSP 157-3 was effective on October 10, 2008. We have adopted provisions of SFAS No. 157 and incorporated the considerations of this FSP in determining the fair value of our financial assets. FSP 157-3 did not have a material impact on our financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Compass Diversified Holdings

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Supplemental Financial Data:

The following supplementary financial data of the registrant and its subsidiaries required to be included in Item 15(a) (2) of Form 10-K are listed below:

Schedule II — Valuation and Qualifying Accounts	S-1

All other schedules not listed above have been omitted as not applicable or because the required information is included in the Consolidated Financial Statements or in the notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of Compass Diversified Holdings

We have audited the accompanying consolidated balance sheets of Compass Diversified Holdings (formerly Compass Diversified Trust) (a Delaware Trust) and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits of the basic financial statements include the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Compass Diversified Holdings and Subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Compass Diversified Holdings and Subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 12, 2009 (not seperately included herein) expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

New York, New York

March 12, 2009 (except for the adjustments to retrospectively apply the adoption of SFAS 160 as described in Note B and Note N as to which the date is May 14, 2009)

Compass Diversified Holdings

Consolidated Balance Sheets

(in thousands)	December 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 97,473	$ 115,500
Accounts receivable, less allowances of $4,824 at December 31, 2008 and $3,204 at December 31, 2007	164,035	111,718
Inventories	50,909	35,492
Prepaid expenses and other current assets	22,784	11,088
Current assets of discontinued operations	—	25,443
Total current assets	335,201	299,241
Property, plant and equipment, net	30,763	20,437
Goodwill	339,095	218,817
Intangible assets, net	249,489	163,378
Deferred debt issuance costs, less accumulated amortization of $3,317 at December 31, 2008 and $1,348 at December 31, 2007	8,251	9,613
Other non-current assets	21,537	17,549
Non-current assets of discontinued operations	—	98,967
Total assets	$ 984,336	$ 828,002
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 48,699	$ 34,306
Accrued expenses	57,109	33,969
Due to related party	604	814
Current portion, long-term debt	2,000	2,000
Current portion of workers' compensation liability	26,916	6,881
Other current liabilities	4,042	560
Current liabilities of discontinued operations	—	28,083
Total current liabilities	139,370	106,613
Supplemental put obligation	13,411	21,976
Deferred income taxes	86,138	59,478
Long-term debt	151,000	148,000
Workers' compensation liability	40,852	16,791
Other non-current liabilities	9,687	4,628
Non-current liabilities and noncontrolling interest of discontinued operations	—	15,799
Total liabilities	440,458	373,285
Stockholders' equity		
Trust shares, no par value, 500,000 authorized; 31,525 shares issued and outstanding at December 31, 2008 and December 31, 2007	443,705	443,705
Accumulated other comprehensive loss	(5,242)	—
Accumulated earnings (deficit)	25,984	(10,855)
Total stockholders' equity attributable to Holdings	464,447	432,850
Noncontrolling interest	79,431	21,867
Total stockholders' equity	543,878	454,717
Total liabilities and stockholders' equity	$ 984,336	$ 828,002

See notes to consolidated financial statements.

Compass Diversified Holdings
Consolidated Statements of Operations

(in thousands, except per share data)	Year ended December 31, 2008	2007	2006
Net sales	$ 532,127	$ 271,911	$ 42,752
Service revenues	1,006,346	569,880	352,421
Total revenues	1,538,473	841,791	395,173
Cost of sales	363,675	171,665	22,479
Cost of services	832,531	464,343	284,535
Gross profit	342,267	205,783	88,159
Operating expenses:			
Staffing expense	102,438	56,207	34,345
Selling, general and administrative expense	165,768	94,426	31,605
Supplemental put expense	6,382	7,400	22,456
Management fees	15,205	10,120	4,158
Amortization expense	24,605	12,679	5,814
Operating income (loss)	27,869	24,951	(10,219)
Other income (expense):			
Interest income	1,377	2,520	804
Interest expense	(17,828)	(6,994)	(6,057)
Amortization of debt issuance costs	(1,969)	(1,232)	(779)
Loss on debt extinguishment	—	—	(8,275)
Other income (expense), net	894	(26)	489
Income (loss) from continuing operations before income taxes	10,343	19,219	(24,037)
Provision for income taxes	6,526	9,168	3,936
Income (loss) from continuing operations	3,817	10,051	(27,973)
Income from discontinued operations, net of income tax	4,607	5,480	9,831
Gain on sale of discontinued operations, net of income tax	73,363	35,834	—
Net income (loss)	81,787	51,365	(18,142)
Net income attributable to noncontrolling interest	3,493	10,997	1,107
Net income (loss) attributable to Holdings	$ 78,294	$ 40,368	$ (19,249)
Amounts attributable to Holdings:			
Income (loss) from continuing operations	$ 324	$ (946)	$ (29,080)
Income from discontinued operations, net of income tax	4,607	5,480	9,831
Gain on sale of discontinued operations, net of income tax	73,363	35,834	—
Net income (loss) attributable to Holdings	$ 78,294	$ 40,368	$ (19,249)
Basic and fully diluted income (loss) per share attributable to Holdings:			
Continuing operations	$ 0.01	$ (0.04)	$ (2.29)
Discontinued operations	2.47	1.50	0.77
Basic and fully diluted income (loss) per share attributable to Holdings	$ 2.48	$ 1.46	$ (1.52)
Weighted average number of shares of trust stock outstanding – basic and fully diluted	31,525	27,629	12,686
Cash distributions declared per share	$ 1.33	$ 1.25	$ 0.7327

See notes to consolidated financial statements.

Compass Diversified Holdings

Consolidated Statements of Stockholders' Equity

(in thousands)	Number of Shares	Amount	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders' Equity Attributable to Holdings	Non-Controlling Interest	Total Stockholders' Equity
Balance — January 1, 2006	—	$ —	$ (1)	$ —	$ (1)	$ 100	$ 99
Net loss	—	—	(19,249)	—	(19,249)	1,107	(18,142)
Comprehensive loss			(19,249)		(19,249)	1,107	(18,142)
Issuance of Trust shares, net of offering costs	19,500	269,816	—	—	269,816	—	269,816
Issuance of Trust shares related to Anodyne	950	13,100	—	—	13,100	—	13,100
Issuance of stock by noncontrolling interest	—	—	—	—	—	16,253	16,253
Option activity attributable to noncontrolling interest	—	—	—	—	—	274	274
Distributions paid	—	(7,955)	—	—	(7,955)	—	(7,955)
Balance — December 31, 2006	20,450	274,961	(19,250)	—	255,711	17,734	273,445
Net income	—	—	40,368	—	40,368	10,997	51,365
Comprehensive income			40,368		40,368	10,997	51,365
Issuance of Trust shares, net of offering costs	11,075	168,744	—	—	168,744	—	168,744
Distribution to noncontrolling interest (See Note N)	—	—	—	—	—	(13,987)	(13,987)
Issuance of stock by noncontrolling interest	—	—	—	—	—	7,270	7,270
Option activity attributable to noncontrolling interest	—	—	—	—	—	728	728
Redemption of noncontrolling interest	—	—	—	—	—	(875)	(875)
Distributions paid	—	—	(31,973)	—	(31,973)	—	(31,973)
Balance — December 31, 2007	31,525	443,705	(10,855)	—	432,850	21,867	454,717
Net income	—	—	78,294	—	78,294	3,493	81,787
Other comprehensive loss — cash flow hedge(1)	—	—	—	(5,242)	(5,242)	—	(5,242)
Comprehensive income			78,294	(5,242)	73,052	3,493	76,545
Transfer from noncontrolling interest (See Note N)	—	—	—	—	—	(3,900)	(3,900)
Issuance of stock by noncontrolling interest	—	—	—	—	—	—	—
-Staffmark acquisition -(See Note C)						47,899	47,899
-Fox acquisition (See Note C)						7,725	7,725
Option activity attributable to noncontrolling interest	—	—	—	—	—	2,347	2,347
Distributions paid	—	—	(41,455)	—	(41,455)	—	(41,455)
Balance — December 31, 2008	31,525	$ 443,705	$ 25,984	$ (5,242)	$ 464,447	$ 79,431	$ 543,878

(1) Other comprehensive loss — cash flow hedge is entirely attributable to Holdings.

See notes to consolidated financial statements.

Compass Diversified Holdings
Consolidated Statements of Cash Flows

(in thousands)	Year ended December 31, 2008	2007	2006
Cash flows from operating activities:			
Net income (loss) attributable to Holdings	$ 78,294	$ 40,368	$ (19,249)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on sale of 2008 dispositions	(73,363)	—	—
Gain on sale of 2007 disposition	—	(35,834)	—
Depreciation expense	9,276	5,010	2,494
Amortization expense	25,745	19,097	7,032
Amortization of debt issuance costs	1,969	1,224	764
Loss on debt extinguishment	—	—	8,275
Supplemental put expense	6,382	7,400	22,456
Noncontrolling interests	4,042	11,940	2,950
Noncontrolling stockholder charges and other	2,827	1,080	2,760
Deferred taxes	(8,911)	(1,295)	(2,281)
In-process research and development expense	—	—	1,120
Other	381	86	(450)
Changes in operating assets and liabilities, net of acquisition:			
(Increase)/decrease in accounts receivable	29,970	(13,233)	(7,867)
(Increase)/decrease in inventories	102	(5,772)	(6,314)
(Increase)/decrease in prepaid expenses and other current assets	(3,874)	2,003	(72)
Increase/(decrease) in accounts payable and accrued expenses	(17,344)	17,578	8,945
Decrease in supplemental put obligation	(14,947)	(7,880)	—
Net cash provided by operating activities	40,549	41,772	20,563
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(167,546)	(225,112)	(356,464)
Purchases of property and equipment	(11,576)	(8,698)	(5,822)
Proceeds from 2008 dispositions	154,156	—	—
Proceeds from 2007 disposition	—	119,652	—
Changes in noncontrolling interest	2,251	—	—
Other investing activities	173	—	—
Net cash used in investing activities	(22,542)	(114,158)	(362,286)
Cash flows from financing activities:			
Borrowings under Credit Agreement	90,000	311,977	85,004
Repayments under Credit Agreement	(87,532)	(246,800)	—
Proceeds from the issuance of Trust shares, net	—	168,744	284,969
Debt issuance costs	(552)	(5,776)	(11,560)
Distributions paid	(41,455)	(31,973)	(7,955)
Distributions paid — Advanced Circuits	—	(13,987)	—
Other	(273)	2,697	615
Net cash (used in) provided by financing activities	(39,812)	184,882	351,073
Foreign currency adjustment	(80)	(144)	260
Net increase/(decrease) in cash and cash equivalents	(21,885)	112,352	9,610
Cash and cash equivalents — beginning of period	119,358	7,006	100
Cash and cash equivalents — end of period	$ 97,473	$ 119,358	$ 9,710
Cash related to discontinued operations	$ —	$ 3,858	$ 4,690

Supplemental non-cash financing and investing activity for the year ended December 31, 2008:

- Issuance of CBS Personnel's common stock valued at $47.9 million in connection with the acquisition of Staffmark. See Note C.
- Acquisition of $7.0 million of Anodyne common stock in connection with the extinguishment of a promissory note due the Company by an employee of Anodyne. See Note R.
- Capital leases totaling $0.9 million were entered into during 2008.

See notes to consolidated financial statements.

Note A — Organization and Business Operations

Compass Diversified Holdings, a Delaware statutory trust (the "Trust"), was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability Company (the "Company"), was also formed on November 18, 2005. Compass Group Management LLC, a Delaware limited liability Company ("CGM" or the "Manager"), was the sole owner of 100% of the interests of the Company (as defined in the Company's operating agreement, dated as of November 18, 2005), which were subsequently reclassified as the "Allocation Interests" pursuant to the Company's amended and restated operating agreement, dated as of April 25, 2006 (as amended and restated, the "LLC Agreement") (see Note R — Related Parties).

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

Note B — Summary of Significant Accounting Policies

Accounting Principles

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis of Presentation

The results of operations for the years ended December 31, 2008, 2007 and 2006 represent the results of operations of the Company's acquired businesses from the date of their acquisition by the Company, and therefore are not indicative of the results to be expected for the full year. Certain prior year amounts have been reclassified to conform to the current year's presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Trust and the Company, as well as the businesses acquired as of their respective acquisition date. All significant intercompany accounts and transactions have been eliminated in consolidation. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), discontinued operating entities are reflected as discontinued operations in the Company's results of operations and statements of financial position.

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

Discontinued Operations

On January 5, 2007, the Company sold its majority owned subsidiary, Crosman Acquisition Corporation ("Crosman") for a total enterprise value of $143.0 million. As a result, the results of operations of Crosman for the period from its acquisition by us (May 16, 2006) through December 31, 2006 are reported as discontinued operations in accordance with SFAS 144.

On June 24, 2008, the Company sold its majority owned subsidiary, Aeroglide Corporation ("Aeroglide"), for a total enterprise value of $95.0 million. As a result, the results of operations of Aeroglide for the periods from its acquisition on February 28, 2007 through December 31, 2007, and from January 1, 2008 through the date of sale on June 24, 2008, are reported as discontinued operations in accordance with SFAS 144. In addition, Aeroglide's assets and liabilities have been reclassified as discontinued operations on the consolidated balance sheet as of December 31, 2007.

On June 25, 2008, the Company sold its majority owned subsidiary, Silvue Technologies Group, Inc. ("Silvue"), for a total enterprise value of $95.0 million. As a result, the results of operations of Silvue for the periods from its acquisition on May

16, 2006 through December 31, 2006, from January 1, 2007 through December 31, 2007 and from January 1, 2008 through the date of sale on June 25, 2008, are reported as discontinued operations in accordance with SFAS 144. In addition, Silvue's assets and liabilities have been reclassified as discontinued operations on the consolidated balance sheet as of December 31, 2007.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It is possible that in 2009 actual conditions could be worse than anticipated when we developed our estimates and assumptions, which could materially affect our results of operations and financial position. Such changes could result in future impairment of goodwill, intangibles and long-lived assets, establishment of valuation allowances on deferred tax assets and increased tax liabilities. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash, accounts receivable and accounts payable approximate their fair value. Term Debt with a carrying value of $153.0 million at December 31, 2008 had a fair value of approximately $133.6 million. The fair value is based on interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities.

Revenue recognition

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

Advanced Circuits

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

American Furniture

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

Anodyne

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

CBS Personnel

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

Fox

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

HALO

Revenue is recognized when an arrangement exists, the promotional or premium products have been shipped, fees are fixed and determinable, and the collection of the resulting receivables is probable. Over 90% of HALO's sales are drop-shipped.

Cash equivalents

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

Allowance for doubtful accounts

The Company uses estimates to determine the amount of the allowance for doubtful accounts in order to reduce accounts receivable to their net realizable value. The Company estimates the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt trends. When the Company becomes aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will record an allowance against amounts due, and thereby reduce the net receivable to the amount it reasonably believes will be collectible. Accounts receivable balances are not collateralized.

Inventories

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

Property, plant and equipment

Property, plant and equipment is recorded at cost. The cost of major additions or betterments is capitalized, while maintenance and repairs that do not improve or extend the useful lives of the related assets are expensed as incurred.

Depreciation is provided principally on the straight-line method over estimated useful lives. Leasehold improvements are amortized over the life of the lease or the life of the improvement, whichever is shorter.

The useful lives are as follows:

Machinery, equipment and software	2 to 10 years
Office furniture and equipment	3 to 7 years
Leasehold improvements	Shorter of useful life or lease term

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

Goodwill and intangible assets

Goodwill represents the difference between purchase cost and the fair value of net assets acquired in business acquisitions. Indefinite lived intangible assets, representing trademarks and trade names, are not amortized until their useful life is determined to no longer be indefinite. Goodwill and indefinite lived intangible assets are tested for impairment at least annually as of April 30th of each year, unless circumstances otherwise dictate, by comparing the fair value of each reporting unit to its carrying value. Fair value is determined using a discounted cash flow methodology and includes management's assumptions on revenue, growth rates, operating margins, appropriate discount rates and expected capital expenditures. Impairments, if any, are charged directly to earnings. Intangible assets with a useful life include customer relations, technology and licensing agreements that are subject to amortization, and are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be fully recoverable.

Deferred debt issuance costs

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

Workers' compensation liability

Workers' compensation liability represents estimated costs of self insurance associated with workers' compensation at the Company's subsidiary CBS Personnel. The reserves for workers' compensation are based upon actuarial assumptions of individual case estimates and incurred but not reported ("IBNR") losses. At December 31, 2008 and 2007, the current portion of these reserves is included as a component of current workers' compensation liability and the non-current portion is included as a component of workers' compensation liability on the consolidated balance sheets.

Warranties

The Company estimates its exposure to warranty claims based on both current and historical product sales data and warranty costs incurred. The majority of Fox's products carry one- to two-year warranties. The Company assesses the adequacy of its recorded warranty liability quarterly and adjusts the amount as necessary. The warranty liability was $1.4

million at December 31, 2008 and is included in accrued expenses in the accompanying consolidated balance sheet. The Company accrued for $2.1 million of warranty liability and paid $1.5 million in warranty claims, during the year ended December 31, 2008.

Supplemental put

As distinct from its role as Manager of the Company, CGM is also the owner of 100% of the Allocation Interests in the Company. Concurrent with the IPO, CGM and the Company entered into a Supplemental Put Agreement, which may require the Company to acquire these Allocation Interests upon termination of the Management Services Agreement. Essentially, the put right granted to CGM requires the Company to acquire CGM's Allocation Interests in the Company at a price based on a percentage of the increase in estimated fair value in the Company's businesses over its basis in those businesses. Each fiscal quarter the Company estimates the fair value of its businesses for the purpose of determining its potential liability associated with the Supplemental Put Agreement. Any change in the potential liability is accrued currently as a non-cash adjustment to earnings. For the years ended December 31, 2008, 2007 and 2006, the Company recognized approximately $6.4 million, $7.4 million and $22.5 million, respectively, in expense related to the Supplemental Put Agreement. Upon the sale of any of the majority owned subsidiaries, the Company will be obligated to pay CGM the amount of the accrued supplemental put liability allocated to the sold subsidiary.

Derivatives and Hedging

The Company utilizes an interest rate swap (derivative) to manage risks related to interest rates on the last $140.0 million of its Term Loan Facility. The Company has elected hedge accounting treatment to account for its interest rate swap. The Company has designated the interest rate swap as a cash flow hedge and as a result unrealized changes in fair value of the hedge are reflected in comprehensive income.

At December 31, 2008, derivative liabilities were $5.2 million and represented the mark-to-market unrealized loss on the interest rate swaps.

On February 18, 2009, the Company terminated a portion of its Swap in connection with the repayment of $75.0 million of the Term Loan Facility. In connection with the termination, the Company reclassified $2.6 million from accumulated other comprehensive loss into earnings. Refer to Note S for additional information.

Noncontrolling interest

Noncontrolling interest represents the portion of a majority-owned subsidiary's net income that is owned by noncontrolling (minority) shareholders.

In January 2009, the Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. The adoption of SFAS 160 resulted in the presentation of noncontrolling interest as a component of equity on the Consolidated Balance Sheets and income attributable to noncontrolling interest on the Consolidated Statements of Operations.

Income taxes

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

The effective tax rate differs from the statutory rate of 35%, principally due to the pass through effect of passing the expenses of Compass Group Diversified Holdings, LLC onto the shareholders of the Trust, and for state and foreign taxes.

Earnings per share

Basic and diluted income per share are computed on a weighted average basis. The weighted average number of Trust shares outstanding for fiscal 2006 was computed based on 100 shares of Allocation Interests outstanding for the period from January 1, 2006 through December 31, 2006, 19,500,000 Trust shares, for the period from May 16, 2006 through December 31, 2006 and 950,000 additional Trust shares (issued in connection with the acquisition of Anodyne) for the period from August 1, 2006 through December 31, 2006.

The weighted average number of Trust shares outstanding for fiscal 2007 was computed based on 20,450,000 shares outstanding for the period from January 1, 2007 through December 31, 2007 and 9,875,000 additional shares outstanding issued in connection with the Company's secondary offering for the period from May 8, 2007 through December 31, 2007, and 1,200,000 shares outstanding issued in connection with the over-allotment for the period from May 20, 2007 through

December 31, 2007. The Company did not have any option plan or other potentially dilutive securities outstanding at December 31, 2007.

The weighted average number of Trust shares outstanding for fiscal 2008 was computed based on 31,525,000 shares outstanding for the entire fiscal year. The Company did not have any option plan or other potentially dilutive securities outstanding at December 31, 2008.

Advertising costs

Advertising costs are expensed as incurred and included in selling, general and administrative expense in the consolidated statements of operations. Advertising costs were $5.5 million, $4.0 million and $2.4 million during the years ended December 31, 2008, 2007 and 2006, respectively.

Research and Development

Research and development costs are expensed as incurred and included in selling, general and administrative expense in the consolidated statements of operations. The Company incurred research and development expense of $3.5 million, $0.9 million and $0.7 million during the years ended December 31, 2008, 2007 and 2006, respectively.

Loss on debt extinguishment

Loss on debt extinguishment for the year ended December 31, 2006 consisted of approximately $2.6 million incurred in prepayment fees and $5.7 million in unamortized debt issuance costs expensed in connection with terminating the Initial Financing Agreement on November 21, 2006 (see Note K - Debt).

Employee retirement plans

The Company and many of its subsidiaries sponsor defined contribution retirement plans, such as 401(k) or profit sharing plans. Employee contributions to the plan are subject to regulatory limitations and the specific plan provisions. The Company and its subsidiaries may match these contributions up to levels specified in the plans and may make additional discretionary contributions as determined by management. The total employer contributions to these plans were $2.1 million, $1.3 million and $0.6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Recent accounting pronouncements

In December 2007, the FASB issued SFAS No. 141R, "*Business Combinations"* or SFAS 141R. SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations the Company engaged in during 2008 were recorded and disclosed following existing GAAP. This Statement will have an impact on future acquisitions that the Company makes in fiscal 2009. The Company expects SFAS No. 141R will have an impact on the consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions the Company consummates after the effective date.

In December 2007, the FASB issued SFAS No. 160, "*Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*", or ("SFAS 160"), which the Company adopted on January 1, 2009. SFAS 160 will significantly change the accounting and reporting related to a non-controlling interest in a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. After adoption, non-controlling interests will be classified as shareholders' equity, a change from its current classification between liabilities and shareholders' equity. Earnings attributable to noncontrolling interests will be included in net income, although such earnings will continue to be deducted to measure earnings per share. Purchases and sales of noncontrolling interests will be reported in equity. The Company adopted SFAS 160 effective January 1, 2009, and has adjusted its financial statements as follows:

- noncontrolling interest of $79.4 million, $21.9 million and $17.7 million have been reclassified from the mezzanine section of the Consolidated Balance Sheets to the equity section of the Consolidated Balance Sheets as of December 31, 2008, December 31, 2007 and December 31, 2006, respectively;
- consolidated net income (loss) for comparative periods presented has been adjusted to include net income attributable to the noncontrolling interest;
- consolidated comprehensive income (loss) has been adjusted for comparative periods to include the comprehensive income (loss) attributable to the noncontrolling interest; and
- net income (loss) and comprehensive income (loss) attributable to Holdings and to the noncontrolling interest are presented separately and earnings per share is based on income (loss) attributable to Holdings' common stockholders.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*" ("SFAS 161"). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, results of operations and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as well as related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The adoption of this standard will not have a material impact on the notes to the consolidated financial statements.

On April 25, 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (Revised 2007), "Business Combinations," and other U.S. GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The adoption of this FSP may impact the useful lives the Company assigns to intangible assets that are acquired through future business combinations.

On October 10, 2008, the FASB staff issued Staff Position (FSP) No. SFAS 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*", or ("FSP 157-3"), which amends SFAS No. 157 by incorporating an example to illustrate key considerations in determining the fair value of a financial asset in an inactive market. FSP 157-3 was effective on October 10, 2008. The Company has adopted provisions of SFAS No. 157 and incorporated the considerations of this FSP in determining the fair value of its financial assets. FSP 157-3 did not have a material impact on the Company's consolidated financial statements.

Note C — Acquisition of Businesses

From January 1, 2007 through December 31, 2008, the Company completed five acquisitions as follows:

February 28, 2007	August 31, 2007	January 4, 2008	January 21, 2008
Aeroglide[(1)] HALO	American Furniture	FOX	Staffmark[(2)]

(1) Aeroglide was subsequently disposed of on June 24, 2008.

(2) Staffmark was acquired by the CBS Personnel business segment.

Allocation of Purchase Price

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

by independent appraisal experts. The results of operations of each of the Company's acquisitions are included in the consolidated financial statements from the date of acquisition. In accordance with SFAS No. 141, a deferred tax liability aggregating $25.3 million and $24.6 million, was recorded to reflect the net increase in the financial accounting basis of the assets acquired over their related income tax basis in 2008 and 2007, respectively. Initial purchase price allocations may be adjusted within one year of the purchase date for changes in estimates of the fair value of assets acquired and liabilities assumed.

2007 Acquisitions

As part of the acquisitions of the HALO, Aeroglide and American Furniture businesses in 2007 the Company allocated approximately $102.0 million of the purchase prices to goodwill. The Company also allocated $70.1 million to customer relations in accordance with EITF 02-17, "*Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination."* The Company will amortize the amount allocated to customer relationships over useful lives ranging from 10 to 15 years. In addition, the Company allocated approximately $2.0 million of the purchase prices in 2007 to technology with an estimated useful life of 13 years and $6.1 million to non-compete agreements and backlog with estimated useful lives ranging from less than one year to 3 years. Intangible assets recorded include the value assigned to trade names of $14.8 million, which is not subject to amortization.

2008 Acquisitions

Fox Factory

On January 4, 2008, Fox Factory Holding Corp., a subsidiary of the Company, entered into an agreement with Fox Factory, Inc. ("Fox") and Robert C. Fox, Jr., the sole shareholder of Fox, to purchase all of the issued and outstanding capital stock of Fox. The Company made loans to and purchased a controlling interest in Fox for approximately $80.4 million, representing approximately 75.5% of the outstanding common stock on a primary basis and 69.8% on a fully diluted basis. Fox management invested in the transaction alongside CODI resulting in an initial noncontrolling ownership of approximately 24.0%.

Headquartered in Watsonville, California, Fox is a designer, manufacturer and marketer of high end suspension products for mountain bikes, all-terrain vehicles, snowmobiles and other off-road vehicles. Fox acts both as a tier one supplier to leading action sport original equipment manufacturers and provides after-market products to retailers and distributors.

In connection with the allocation of the purchase price and intangible asset valuation, goodwill of $31.3 million and intangible assets subject to amortization of $44.2 million were recorded. The intangible assets recorded include $11.7 million of customer relationships with useful lives ranging from 8 to 12 years and $32.5 million of technology with an estimated useful life of 8 years. In addition, intangible assets recorded include the value assigned to trademarks of $13.3 million which is not subject to amortization. The Company does not expect the goodwill will be deductible for tax purposes. Fox's results of operations are reported as a separate business segment and are included in the Company's consolidated results of operations from the date of acquisition.

The Company's Manager acted as an advisor to the Company in the transaction and received fees and expense payments totaling approximately $0.8 million.

Staffmark

On January 21, 2008, the Company's majority-owned subsidiary, CBS Personnel, acquired Staffmark Investment LLC ("Staffmark"), a privately held personnel services provider. Staffmark is a leading provider of commercial staffing services in the United States. Staffmark provides staffing services in more than 30 states through more than 200 branches and on-site locations. The majority of Staffmark's revenues are derived from light industrial staffing, with the balance of revenues derived from administrative and transportation staffing, permanent placement services and managed solutions. Similar to CBS Personnel, Staffmark is one of the largest privately held staffing companies in the United States. Under the terms of the purchase agreement, CBS Personnel purchased all of the outstanding equity interests of Staffmark for a total purchase price of approximately $128.6 million, exclusive of transaction fees and closing costs of $5.2 million. Staffmark has become a wholly-owned subsidiary of CBS Personnel and Staffmark's results of operations are included in the CBS Personnel business segment from the date of acquisition.

The aggregate purchase price consisted of cash and 1,929,089 shares of CBS Personnel common stock, valued at approximately $47.9 million. The fair value of the CBS Personnel stock issued and transferred to Staffmark as partial consideration in the acquisition was determined based on an analysis of financial and market data of publicly traded companies deemed comparable to CBS Personnel, together with relevant multiples of recent merged, sold or acquired companies comparable to CBS Personnel.

The acquisition agreement pursuant to which CBS Personnel issued cash and 1,929,089 shares of CBS Personnel common stock (the “Staffmark stock”) in exchange for all of the membership units of Staffmark, gave the holders of Staffmark’s membership units a non-transferable right (“put right”), to direct the Company, on or after January 21, 2011, to either: (i) promptly initiate such commercially reasonable actions that would result in a sale of CBS Personnel or (ii) offer to purchase the Staffmark stock at its then fair market value, if such right was not otherwise extinguished pursuant to the terms of the acquisition agreement. The put right is extinguishable at any time if either a public offering of the shares of CBS Personnel or sale of CBS Personnel has occurred.

In connection with the allocation of the purchase price and intangible asset valuation, goodwill of $78.9 million and intangible assets subject to amortization of $50.1 million were recorded. The intangible assets recorded include $24.5 million of customer relationships with an estimated useful life of 12 years, $24.5 million of trademarks with an estimated useful life of 15 years and $1.1 million of licensing agreements with an estimated useful life of 3 years. The Company expects $58.4 million of goodwill will be deductible for tax purposes.

The Company’s ownership percentage of CBS Personnel is 66.4% on a primary basis and 62.4% on a fully diluted basis subsequent to the Staffmark acquisition.

The Company’s Manager acted as an advisor to CBS Personnel in the transaction and received fees and expense payments totaling approximately $1.2 million.

The estimated fair value of assets acquired and liabilities assumed that were accounted for as a business combination relating to the acquisitions of the Company’s businesses in 2008 and 2007 are summarized below:

2008 Acquisitions

(in thousands)	FOX	Staffmark (2)	Total
Assets:			
Current assets(1)	$ 28,786	$ 74,670	$ 103,456
Property, plant and equipment, net	5,552	3,545	9,097
Intangible assets, net	57,500	50,055	107,555
Goodwill	31,303	78,947	110,250
Other assets	1,360	5,376	6,736
Total assets	$ 124,501	$ 212,593	$ 337,094
Liabilities:			
Current liabilities	$ 13,337	$ 37,396	$ 50,733
Other liabilities	78,963	41,386	120,349
Noncontrolling interest	7,725	—	7,725
Total liabilities and noncontrolling interest	$ 100,025	$ 78,782	$ 178,807
Costs of net assets acquired	$ 24,476	$ 133,811	$ 158,287
Loans to businesses	55,907	—	55,907
	$ 80,383	$ 133,811	$ 214,194

(1) Includes approximately $9.0 million in cash.

(2) Staffmark was acquired by the CBS Personnel operating segment.

2007 Acquisitions

(in thousands)	Aeroglide (2)	HALO	AFM	Total
Assets:				
Current assets(1)	$ 15,517	$ 25,468	$ 35,898	$ 76,883
Property, plant and equipment, net	7,003	1,877	5,174	14,054
Intangible assets, net	22,250	35,270	33,480	91,000
Goodwill	29,239	32,120	40,598	101,957
Other assets	903	1,050	1,652	3,605
Total assets	$ 74,912	$ 95,785	$116,802	$287,499
Liabilities:				
Current liabilities	$ 14,327	$ 16,377	$ 7,378	$ 38,082
Other liabilities	39,000	55,908	80,674	175,582
Noncontrolling interest	2,350	2,750	1,750	6,850
Total liabilities and noncontrolling interest	$ 55,677	$ 75,035	$ 89,802	$220,514
Costs of net assets acquired	$ 19,235	$ 20,750	$ 27,000	$ 66,985
Loans to businesses	39,000	41,576	69,969	150,545
	$ 58,235	$ 62,326	$ 96,969	$217,530

(1) Includes approximately $1.7 million in cash.

(2) See Note D.

<u>Unaudited Pro-forma Information</u>

The following unaudited pro-forma data for the years ended December 31, 2008 and 2007 gives effect to the 2008 Acquisitions as described above, as if the acquisitions had been completed as of January 1, 2007. The pro forma data gives effect to actual operating results and adjustments to interest expense, depreciation and amortization expense and noncontrolling interests in the acquired businesses. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transactions had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representative of these results for any future period.

<u>Year ended December 31, 2008</u>

(in thousands, except per share data)	Total
Net sales	$1,569,545
Income from continuing operations before income taxes	9,592
Net income attributable to Holdings	77,849
Basic and fully diluted income per share	$ 2.47

<u>Year ended December 31, 2007</u>

(in thousands, except per share data)	Total
Net sales	$1,530,781
Income from continuing operations before income taxes	9,244
Net income attributable to Holdings	34,716
Basic and fully diluted income per share	$ 1.26

In addition to the acquisitions reflected above, the Company's subsidiaries, Anodyne and HALO, acquired two add-on businesses during 2007 for a total purchase price aggregating approximately $8.1 million. Goodwill totaling approximately $4.3 million was initially recorded in connection with these transactions. In 2008, the Company's HALO subsidiary acquired three add-on businesses for a total purchase price aggregating approximately $10.3 million. Goodwill of $6.8

million was initially recorded in connection with these acquisitions. In addition to goodwill, HALO recorded $2.7 million related to customer relationships with an estimated useful life of 15 years and $0.2 million of non-compete agreements with an estimated useful life of 3 years.

Note D — Discontinued Operations

2007 Disposition

On January 5, 2007, the Company sold its majority owned subsidiary, Crosman Acquisition Corporation ("Crosman"), for a total enterprise value of $143.0 million. The Company's share of the net proceeds, after accounting for the redemption of Crosman's noncontrolling holders and the payment of CGM's profit allocation, was approximately $110.0 million. The Company recognized a gain on the sale in the first quarter of fiscal 2007 of approximately $36.0 million, or $1.77 per share.

The components of discontinued operations of the Crosman business segment for the period from May 16, 2006 to December 31, 2006, are as follows *(in thousands)*:

	Crosman For the Year Ended December 31, 2006
Net sales	$ 72,316
Operating income	13,277
Other income	182
Provision for income taxes	3,367
Noncontrolling interest	1,705
Income from discontinued operations(1)	$ 8,387

(1) The results above exclude $3.2 million of intercompany interest expense.

2008 Dispositions

On June 24, 2008, the Company sold its majority owned subsidiary, Aeroglide Corporation ("Aeroglide"), for a total enterprise value of $95.0 million. The Company's share of the net proceeds, after accounting for (i) redemption of Aeroglide's noncontrolling holders; (ii) payment of transaction expenses; and (iii) CGM's profit allocation; totaled $78.3 million. The Company recognized a gain on the sale of $34.0 million, or $1.08 per share.

On June 25, 2008, the Company sold its majority owned subsidiary, Silvue Technologies Group, Inc. ("Silvue"), for a total enterprise value of $95.0 million. The Company's share of the net proceeds, after accounting for (i) redemption of Silvue's noncontrolling holders; (ii) payment of transaction expenses; and (iii) CGM's profit allocation; totaled $63.6 million. The Company recognized a gain on the sale of $39.4 million, or $1.25 per share.

Approximately $65 million of the Company's net proceeds from the 2008 dispositions were used to repay amounts outstanding under the Company's Revolving Credit Facility. The remaining net proceeds from the 2008 dispositions were invested in short term investment-grade securities as of December 31, 2008.

Summarized operating results for the 2008 dispositions through the dates of the respective sales were as follows (*in thousands*):

	Aeroglide	
	For the Period January 1, 2008 through Disposition	For the Year Ended December 31, 2007
Net sales	$ 34,294	$ 53,591
Operating income	5,041	2,488
Other expense	(11)	(17)
Provision (benefit) for income taxes	1,274	(323)
Noncontrolling interest	239	156
Income from discontinued operations (1)	$ 3,517	$ 2,638

(1) The results above for the period from January 1, 2008 through disposition exclude $1.6 million of intercompany interest expense. The results for the year ended December 31, 2007 exclude $3.3 million of intercompany interest expense.

	Silvue		
	For the Period January 1, 2008 through Disposition	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Net sales	$ 11,465	$ 22,521	$ 15,700
Operating income	2,416	5,536	2,962
Other expense	(83)	(61)	(18)
Provision for income taxes	933	1,846	1,362
Noncontrolling interest	310	787	138
Income from discontinued operations(1)	$ 1,090	$ 2,842	$ 1,444

(1) The results above for the period from January 1, 2008 through disposition exclude $0.6 million of intercompany interest expense. The results for the year ended December 31, 2007 exclude $1.5 million of intercompany interest expense.

The following table presents summary balance sheet information for the 2008 dispositions as of December 31, 2007 (*in thousands*):

	December 31, 2007		
	Aeroglide	Silvue	Total
Assets:			
Cash	$ 1,901	$ 1,957	$ 3,858
Accounts receivable, net	10,496	2,829	13,325
Inventory	2,156	691	2,847
Earnings in excess of billings	4,244	—	4,244
Other current assets	432	737	1,169
Current assets of discontinued operations	$ 19,229	$ 6,214	$ 25,443
Property, plant and equipment, net	6,625	1,681	8,306
Goodwill	29,863	18,461	48,324
Intangible assets, net	17,512	23,408	40,920
Other non-current assets	873	544	1,417
Non-current assets of discontinued operations	$ 54,873	$ 44,094	$ 98,967
Liabilities:			
Accounts payable	5,454	650	6,104
Accrued expenses	4,377	4,032	8,409
Deferred revenue	10,756	—	10,756
Revolving credit facility	—	2,814	2,814
Current liabilities of discontinued operations	$ 20,587	$ 7,496	$ 28,083
Deferred income taxes	377	9,375	9,752
Noncontrolling interest	2,507	3,352	5,859
Other non-current liabilities	—	188	188
Non-current liabilities of discontinued operations	$ 2,884	$ 12,915	$ 15,799

Note E — Business Segment Data

At December 31, 2008, the Company had six reportable business segments. Each business segment represents an acquisition (Staffmark is included in the CBS Personnel business segment). The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

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

- Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits"), an electronic components manufacturing company, is a provider of prototype and quick-turn printed circuit boards. ACI manufactures and delivers custom printed circuit boards to customers mainly in North America. ACI is headquartered in Aurora, Colorado.

- American Furniture Manufacturing, Inc. ("AFM" or "American Furniture") is a leading domestic manufacturer of upholstered furniture for the promotional segment of the marketplace. AFM offers a broad product line of stationary and motion furniture, including sofas, loveseats, sectionals, recliners and complementary products, sold primarily at retail price points ranging between $199 and $699. AFM is a low-cost manufacturer and is able to ship any product in its line within 48 hours of receiving an order. AFM is headquartered in Ecru, Mississippi and its products are sold in the United States.

- Anodyne Medical Device, Inc. ("Anodyne"), a medical support surfaces company, is a manufacturer of patient positioning devices primarily used for the prevention and treatment of pressure wounds experienced by patients with limited or no mobility. Anodyne is headquartered in Florida and its products are sold primarily in North America.

- CBS Personnel Holdings, Inc. ("CBS" or "CBS Personnel"), a human resources outsourcing firm, is a provider of temporary staffing services in the United States. CBS Personnel serves approximately 6,500 corporate and small business clients. CBS Personnel also offers employee leasing services, permanent staffing and temporary-to-permanent placement services.

- Fox Factory, Inc. ("Fox") is a designer, manufacturer and marketer of high end suspension products for mountain bikes, all-terrain vehicles, snowmobiles and other off-road vehicles. Fox acts as both a tier one supplier to leading action sport original equipment manufacturers and provides after-market products to retailers and distributors. Fox is headquartered in Watsonville, California and its products are primarily sold in North America.
- HALO Branded Solutions, Inc. ("HALO"), operating under the brand names of HALO and Lee Wayne, serves as a one-stop shop for over 40,000 customers providing design, sourcing, management and fulfillment services across all categories of its customer promotional product needs. HALO has established itself as a leader in the promotional products and marketing industry through its focus on service through its approximately 1,000 account executives.

The tabular information that follows shows data of reportable segments reconciled to amounts reflected in the consolidated financial statements. The operations of each of the businesses are included in consolidated operating results as of their date of acquisition. Revenues from geographic locations outside the United States were not material for each reportable segment, except Fox, in each of the years presented below. Fox recorded net sales to locations outside the United States of $92.5 million and $70.5 million for the years ended December 31, 2008 and 2007, respectively. There were no significant inter-segment transactions.

Segment profit is determined based on internal performance measures used by the Chief Executive Officer to assess the performance of each business. Segment profit excludes acquisition related amounts and charges not pushed down to the segments and are reflected in Corporate and other.

A disaggregation of the Company's consolidated revenue and other financial data for the years ended December 31, 2008, 2007 and 2006 is presented below *(in thousands)*:

Net sales of business segments

	Year Ended December 31,		
	2008	2007	2006
ACI	$ 55,449	$ 52,292	$ 30,581
American Furniture	130,949	46,981	—
Anodyne	54,199	44,189	12,171
CBS Personnel	1,006,345	569,880	352,421
Fox	131,734	—	—
Halo	159,797	128,449	—
Total	1,538,473	841,791	395,173
Reconciliation of segment revenues to consolidated revenues:			
Corporate and other	—	—	—
Total consolidated revenues	$ 1,538,473	$ 841,791	$ 395,173

Profit of business segments *(1)*

	Year Ended December 31,		
	2008	2007	2006
ACI	$ 17,665	$ 17,078	$ 7,483
American Furniture	5,123	2,702	—
Anodyne	4,228	2,936	(557)
CBS Personnel	16,768	22,542	17,079
Fox	10,707	—	—
Halo	5,289	7,006	—
Total	59,780	52,264	24,005
Reconciliation of segment profit to consolidated income (loss) from continuing operations before income taxes			
Interest expense, net	(16,451)	(4,474)	(5,253)
Loss on debt extinguishment	—	—	(8,275)
Other income (expense)	894	(26)	489
Corporate and other (2)	(33,880)	(28,545)	(35,003)
Total consolidated income (loss) from continuing operations before income taxes	$ 10,343	$ 19,219	$ (24,037)

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

(2) Corporate and other consists of charges at the corporate level and purchase accounting adjustments not pushed down to the segment.

Accounts receivable and allowances

	Accounts Receivable December 31, 2008	Accounts Receivable December 31, 2007
ACI	$ 3,131	$ 2,913
American Furniture	11,149	10,965
Anodyne	6,919	8,687
CBS Personnel	108,101	62,537
Fox	10,201	—
Halo	29,358	29,820
Total	168,859	114,922
Reconciliation of segment to consolidated totals:		
Corporate and other	—	—
Total	168,859	114,922
Allowance for doubtful accounts	(4,824)	(3,204)
Total consolidated net accounts receivable	$ 164,035	$ 111,718

	Goodwill Dec. 31, 2008	Goodwill Dec. 31, 2007	Identifiable Assets Dec. 31, 2008(3)	Identifiable Assets Dec. 31, 2007(3)	Depreciation and Amortization Expense for the Year Ended December 31, 2008	2007	2006
Goodwill and identifiable assets of business segments							
ACI	$ 50,659	$ 50,659	$ 20,309	$ 22,608	$ 3,741	$ 3,588	$ 2,040
American Furniture	41,435	41,471	67,752	71,110	3,704	1,160	—
Anodyne	22,747	19,555	23,784	25,713	2,740	2,338	763
CBS Personnel	139,715	60,768	84,947	24,808	8,214	2,316	1,372
Fox	31,372	—	83,246	—	6,716	—	—
Halo	40,184	33,381	46,291	41,645	3,157	2,280	—
Total	326,112	205,834	326,329	185,884	28,272	11,682	4,175
Reconciliation of segment to consolidated total:							
Corporate and other identifiable assets	—	—	154,877	187,173	4,857	4,806	2,988
Identifiable assets of disc. ops.	—	—	—	124,410	—	—	
Amortization of debt issuance costs	—	—	—	—	1,969	1,232	779
Goodwill carried at Corporate level (4)	12,983	12,983	—	—	—	—	—
Total	$ 339,095	$ 218,817	$ 481,206	$ 497,467	$ 35,098	$ 17,720	$ 7,942

(3) Not including accounts receivable scheduled above.

(4) Represents goodwill resulting from purchase accounting adjustments not “pushed down” to the respective segment. Goodwill is allocated back to the respective segment for purposes of impairment testing.

Note F — Inventories

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

	December 31, 2008	December 31, 2007
Raw materials and supplies	$ 34,405	$ 20,899
Finished goods	17,571	15,062
Less: obsolescence reserve	(1,067)	(469)
Total	$ 50,909	$ 35,492

Note G — Property, Plant and Equipment

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

	December 31, 2008	December 31, 2007
Machinery, equipment and software	$ 26,024	$ 12,062
Office furniture and equipment	10,501	8,564
Leasehold improvements	6,030	4,436
	42,555	25,062
Less: accumulated depreciation	(11,792)	(4,625)
Total	$ 30,763	$ 20,437

Depreciation expense was approximately $8.5 million, $3.8 million and $1.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Note H — Commitments and Contingencies

Leases

The Company leases office facilities, computer equipment and software under operating arrangements. The future minimum rental commitments at December 31, 2008 under operating leases having an initial or remaining non-cancelable term of one year or more are as follows (*in thousands*):

2009	$ 13,503
2010	10,828
2011	7,212
2012	5,514
2013	4,182
Thereafter	11,962
	$ 53,201

The Company's rent expense for the fiscal years ended December 31, 2008, 2007 and 2006 totaled $16.5 million, $8.3 million and $4.1 million, respectively.

Legal Proceedings

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

Note I — Goodwill and Other Intangible Assets

A reconciliation of the change in the carrying value of goodwill for the periods ended December 31, 2008 and 2007 are as follows *(in thousands*):

Balance at January 1, 2007	$ 140,690
Acquisition of businesses	76,387
Adjustment to purchase accounting	1,740
Balance at December 31, 2007	218,817
Acquisition of businesses	117,031
Acquired goodwill in connection with Anodyne CEO promissory note (See Note R)	3,191
Adjustment to purchase accounting	56
Balance at December 31, 2008	$ 339,095

Approximately $148.2 million of goodwill is deductible for income tax purposes at December 31, 2008.

Other intangible assets subject to amortization are comprised of the following at December 31, 2008 and 2007 *(in thousands):*

	December 31,		Weighted Average Useful Lives
	2008	2007	
Customer relationships	$ 187,669	$ 148,216	12
Technology	37,959	4,851	8
Trade names, subject to amortization	24,500	—	12
Licensing and non-compete agreements	4,416	161	3
Distributor relations and backlog	1,380	4,330	4
	255,924	157,558	
Accumulated amortization customer relations	(32,287)	(15,573)	
Accumulated amortization technology	(6,388)	(806)	
Accumulated amortization trade names, subject to amortization	(1,531)	—	
Accumulated amortization licensing agreements and anti-piracy covenants	(2,369)	(808)	
Accumulated amortization distributor relations and backlog	(630)	(463)	
Total accumulated amortization	(43,205)	(17,650)	
Trade names, not subject to amortization (1)	36,770	23,470	
Total	$ 249,489	$ 163,378	

(1) On February 27, 2009, CBS Personnel rebranded its businesses under the Staffmark brand. In connection with this rebrand, the CBS tradename of $10.6 million, which is reflected as an indefinite lived intangible asset at December 31, 2008, will be adjusted to its estimated fair value and converted to a finite lived asset, subject to amortization, during the first quarter of 2009.

Estimated charges to amortization expense of intangible assets over the next five years, is as follows, *(in thousands):*

2009	$ 24,904
2010	23,808
2011	23,131
2012	23,101
2013	22,822
	$ 117,766

The Company’s amortization expense of intangible assets for the fiscal years ended December 31, 2008, 2007 and 2006 totaled $24.6 million, $12.7 million and $5.8 million, respectively.

Given significant changes in the business climate in the fourth quarter of 2008, the Company retested goodwill for impairment at two of its reporting units, CBS Personnel and American Furniture, at December 31, 2008. In performing this test, the Company revised its estimated future cash flows, as appropriate, to reflect current market conditions within these industries. In each case, no impairment was indicated at this time. If market conditions continue to deteriorate in the markets that CBS Personnel and American Furniture operate, it is likely that the Company will be required to retest goodwill and indefinite lived intangibles, which may result in write downs to fair value.

Note J — Fair Value Measurement

The Company adopted SFAS No. 157, “Fair Value Measurements,” (“SFAS 157”), as of January 1, 2008, with the exception of the application of the statement to non-recurring non-financial assets and non-financial liabilities. Non-recurring non-financial assets and non-financial liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in the Company’s annual goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination.

Valuation Hierarchy

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for

substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2008 (*in thousands*):

	Fair Value Measurements at December 31, 2008			
	Carrying Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative liability — interest rate swap	$ 5,242	$—	$5,242	$ —
Supplemental put obligation	13,411	—	—	13,411
Stock option of noncontrolling shareholder (1)	200	—	200	—

(1) Represents a former employee's option to purchase additional common stock in Anodyne. See Note R.

A reconciliation of the change in the carrying value of the Company's level 3, supplemental put liability for the year ended December 31, 2008 is as follows (*in thousands*):

Balance at January 1, 2008	$ 21,976
Supplemental put expense	6,382
Payments of supplemental put liability	(14,947)
Balance at December 31, 2008	$ 13,411

Valuation Techniques

The Company's derivative instrument consists of an over-the-counter (OTC) interest rate swap contract which is not traded on a public exchange. The fair value of the Company's interest rate swap contract was determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. The stock option of the noncontrolling shareholder was determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. As such, the Company categorized its interest rate swap contract and the stock option of the noncontrolling shareholder as Level 2.

The Company's Manager, CGM is the owner of 100% of the Allocation Interests in the Company. Concurrent with the IPO, CGM and the Company entered into a Supplemental Put Agreement, which requires the Company to acquire these Allocation Interests upon termination of the Management Services Agreement. Essentially, the put rights granted to CGM require us to acquire CGM's Allocation Interests in the Company at a price based on a percentage of the increase in fair value in the Company's businesses over its original basis in those businesses. Each fiscal quarter the Company estimates the fair value of its businesses using a discounted future cash flow model for the purpose of determining the potential liability associated with the Supplemental Put Agreement. The Company uses the following key assumptions in measuring the fair value of the supplemental put: (i) financial and market data of publicly traded companies deemed to be comparable to each of the Company's businesses and (ii) financial and market data of comparable merged, sold or acquired companies. Any change in the potential liability is accrued currently as an adjustment to earnings. The implementation of SFAS 157 did not result in any material changes to the models or processes used to value this liability.

Note K — Debt

On May 16, 2006, the Company entered into a Financing Agreement, dated as of May 16, 2006 (the "Initial Financing Agreement"), which was a $225.0 million secured credit facility with Ableco Finance LLC, as collateral and administrative agent. Specifically, the Initial Financing Agreement provided for a $60.0 million revolving line of credit commitment, a $50.0 million term loan and a $115.0 million delayed draw term loan commitment. This agreement was terminated on November 21, 2006.

On November 21, 2006, the Company obtained a $250.0 million Revolving Credit Agreement with an optional $50.0 million increase from a group of lenders led by Madison Capital, LLC ("Madison") as Agent for all lenders. The

Revolving Credit Agreement provided for a revolving line of credit. The initial proceeds of the Revolving Credit Agreement were used to repay $89.2 million of existing indebtedness and accrued interest and $2.6 million in prepayment fees under the Initial Financing Agreement. In addition, the Company expensed approximately $5.7 million of its deferred loan fees capitalized in connection with the Initial Financing Agreement.

On December 7, 2007, the Company amended the $250.0 million Revolving Credit Agreement with a group of lenders led by Madison Capital, LLC. The amended agreement provides for a Revolving Credit Facility totaling $325.0 million and a Term Loan Facility totaling $150.0 million (collectively "Credit Agreement"). The Term Loan Facility requires quarterly payments of $0.5 million that commenced March 31, 2008, with a final payment of the outstanding principal balance due on December 7, 2013. The Revolving Credit Facility matures on December 7, 2012. The Credit Agreement permits the Company to increase the amount available under the Revolving Credit Facility by up to $10 million and the Term Loan Facility by up to $145 million, subject to certain restrictions and Lender approval. On August 4, 2008, the Company increased its Revolving Credit Facility from $325 million to $340 million. Availability under the Revolving Credit Facility is limited to the lesser of $340 million or the Company's borrowing base at the time of borrowing. The Company incurred approximately $5.8 million in fees and costs for the arrangement of the Credit Agreement during 2007. These costs were capitalized and are being amortized over the life of the loans. Approximately $2.0 million and $1.2 million were amortized to debt issuance cost in 2008 and 2007, respectively, in connection with these capitalized costs.

The Revolving Credit Facility allows for loans at either base rate or LIBOR. Base rate loans bear interest at a fluctuating rate per annum equal to the greater of (i) the prime rate of interest published by the Wall Street Journal and (ii) the sum of the Federal Funds Rate plus 0.5% for the relevant period, plus a margin ranging from 1.50% to 2.50%, based upon the ratio of total debt to adjusted consolidated earnings before interest expense, tax expense, and depreciation and amortization expenses for such period (the "Total Debt to EBITDA Ratio"). LIBOR loans bear interest at a fluctuating rate per annum equal to the London Interbank Offer Rate, or LIBOR, for the relevant period plus a margin ranging from 2.50% to 3.50% based on the Total Debt to EBITDA Ratio. The Company is required to pay commitment fees ranging between 0.75% and 1.25% per annum on the unused portion of the Revolving Credit Facility. The Company recorded commitment fees of $3.1 million, $2.7 million and $1.6 million during 2008, 2007 and 2006 respectively, to interest expense.

The Company is subject to certain customary affirmative and restrictive covenants arising under the Revolving Credit Facility, in addition to financial covenants that require the Company:

- to maintain a minimum fixed charge coverage ratio of at least 1.5 to 1.0;
- to maintain a minimum interest coverage ratio of at least 2.75 to 1.0; and
- to maintain a total debt to EBITDA ratio not to exceed 3.5 to 1.0.

A breach of any of these covenants will be an event of default under the Revolving Credit Facility. Upon the occurrence of an event of default under the Credit Agreement, the Revolving Credit Facility may be terminated, the Term Loan and all outstanding loans and other obligations under the Credit Agreement may become immediately due and payable and any letters of credit then outstanding may be required to be cash collateralized, and the Agent and the Lenders may exercise any rights or remedies available to them under the Credit Agreement, the Collateral Agreement or any other documents delivered in connection therewith. Any such event may materially impair the Company's ability to conduct its business. The Company was in compliance with all covenants at December 31, 2008.

The Lenders have agreed to issue letters of credit in an aggregate face amount of up to $100.0 million. Letters of credit outstanding at December 31, 2008 and 2007 totaled approximately $61.9 million and $26.0 million, respectively. Letter of credit fees recorded to interest expense during the years ended December 31, 2008, 2007 and 2006 aggregated approximately $1.7 million, $0.6 million and $0.2 million, respectively.

The Term Loan Facility bears interest at either base rate or LIBOR. Base rate loans bear interest at a fluctuating rate per annum equal to the greater of (i) the prime rate of interest published by the Wall Street Journal and (ii) the sum of the Federal Funds Rate plus 0.5% for the relevant period plus a margin of 3.0%. LIBOR loans bear interest at a fluctuating rate per annum equal to the London Interbank Offer Rate, or LIBOR, for the relevant period plus a margin of 4.0%.

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

At December 31, 2008, the Company had no revolving credit commitments outstanding and availability of approximately $289.3 million under its Revolving Credit Facility and $153.0 million in Term Loans outstanding. The Company intends to

use the availability under the Revolving Credit Facility to pursue acquisitions of additional businesses to the extent permitted under its Credit Agreement and to provide for working capital needs.

On January 22, 2008, the Company entered into a three-year interest rate swap (“Swap”) agreement with a bank, fixing the rate of $140.0 million at 7.35% on a like amount of variable rate Term Loan Facility borrowings. The Swap is designated as a cash flow hedge and is anticipated to be highly effective.

The remaining $13.0 million of the Term Loan Facility outstanding was at the base rate plus 3.0%, or 6.25% at December 31, 2008.

On February 18, 2009, the Company repaid $75.0 million of the Term Loan Facility. Refer to Note S for additional information.

Note L — Derivative Instruments and Hedging Activities

On January 22, 2008, the Company entered into three-year fixed-for-floating interest rate swaps for $140.0 million with its bank lenders in order to reduce the risk of changes in cash flows associated with the first $140.0 million of its Term Debt interest payments and changes in the three-month LIBOR rate. The effective fixed rate is 7.35% on its Term Debt. The interest rate swaps expire in January 2011. The objective of the swaps is to hedge the risk of changes in cash flows associated with the first future interest payments on variable rate Term Debt with a notional amount of $140.0 million. The cash flow from the swaps is expected to offset any changes in the interest payments on the first $140.0 million of variable rate Term Debt due to changes in three-month LIBOR rate. This is a hedge of future specified cash flows. As a result, these interest rate swaps are derivatives and were designated as hedging instruments at the initiation of the swaps. The Company has applied cash flow hedge accounting in accordance with SFAS 133. At the end of each period, the interest rate swaps are recorded in the consolidated balance sheet at fair value, in either other assets if it is an asset position, or in accrued liabilities if it is in a liability position. Any related increases or decreases in the fair value are recognized on the Company’s consolidated balance sheet within accumulated other comprehensive income.

At December 31, 2008, the unrealized loss on the Swap, reflected in accumulated other comprehensive income, was approximately $5.2 million.

The Company assesses the effectiveness of its interest rate swap as defined in SFAS 133, on a quarterly basis. The Company has considered the impact of the current credit crisis in the United States in assessing the risk of counterparty default. The Company believes that it is still likely that the counterparty for these swaps will continue to perform throughout the contract period, and as a result continues to deem the swaps as effective hedging instruments. A counterparty default risk is considered in the valuation of the interest rate swaps.

Management has assessed that its cash flow hedges have no ineffectiveness, as determined by the Change in Variable Cash Flows method due to the following conditions being met: (i) the floating rate leg of the swap and the hedged variable cash flows are based on three-month LIBOR; (ii) the interest rate reset dates of the floating rate leg of the swap and the hedged variable cash flows of the first $140.0 million of variable rate Term Debt are the same; (iii) the hedging relationship does not contain any other basis differences; and (iv) the likelihood of the obligor not defaulting is assessed as being probable. As of December 31, 2008, the accrued mark to market loss on these swaps is $5.2 million. If the Company partially or fully extinguishes the floating rate debt payments being hedged or were to terminate the interest rate swap contract, a portion or all of the gains or losses that have accumulated in other comprehensive income would be recognized in earnings at that time. Prospective and retrospective assessments of the ineffectiveness of the hedge have been and will be made at the end of each fiscal quarter.

On February 18, 2009, the Company terminated a portion of its Swap in connection with the repayment of $75.0 million of the Term Loan Facility. In connection with the termination, the Company reclassified $2.6 million from accumulated other comprehensive loss into earnings. Refer to Note S for additional information.

Note M — Income Taxes

Compass Diversified Holdings and Compass Group Diversified Holdings LLC are classified as partnerships for U.S. Federal income tax purposes and are not subject to income taxes. Each of the Company’s majority owned subsidiaries are subject to Federal and state income taxes.

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

	Years ended December 31,		
	2008	2007	2006
Current taxes			
Federal	$ 13,386	$ 8,422	$ 5,284
State	2,276	1,094	737
Total current taxes	15,662	9,516	6,021
Deferred taxes:			
Federal	(8,379)	(50)	(1,774)
State	(757)	(298)	(311)
Total deferred taxes	(9,136)	(348)	(2,085)
Total tax expense	$ 6,526	$ 9,168	$ 3,936

The tax effects of temporary differences that have resulted in the creation of deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are as follows:

	December 31,	
(in thousands)	2008	2007
Deferred tax assets:		
Tax credits	$ 266	$ —
Accounts receivable and allowances	1,127	975
Workers' compensation	14,716	8,007
Accrued expenses	3,901	1,267
Loan forgiveness	677	68
Other	2,892	1,621
Total deferred tax assets	23,579	11,938
Less:		
Valuation allowance	—	(359)
Net deferred tax asset	$ 23,579	$ 11,579
Deferred tax liabilities:		
Intangible assets	$ (81,334)	$ (55,832)
Property and equipment	(2,516)	(1,855)
Prepaid and other expenses	(2,288)	(1,791)
Total deferred tax liabilities	$ (86,138)	$ (59,478)
Total net deferred tax liability	$ (62,559)	$ (47,899)

For the tax years ending December 31, 2008 and 2007, the Company recognized approximately $86.1 million and $59.5 million, respectively in deferred tax liabilities. A significant portion of the balance in deferred tax liabilities reflects temporary differences in the basis of property and equipment and intangible assets related to the Company's purchase accounting adjustments in connection with the acquisition of certain of the businesses. For financial accounting purposes the Company recognized a significant increase in the fair values of the intangible assets and property and equipment. For income tax purposes the existing tax basis of the intangible assets and property and equipment is utilized. In order to reflect the increase in the financial accounting basis over the existing tax basis, a deferred tax liability was recorded. This liability will decrease in future periods as these temporary differences reverse.

A valuation allowance relating to the realization of foreign tax credits and net operating losses of $0.4 million was provided at December 31, 2007. There was no valuation allowance at December 31, 2008. A valuation allowance is provided whenever it is more likely than not that some or all of deferred assets recorded may not be realized.

The reconciliation between the Federal Statutory Rate and the effective income tax rate for 2008, 2007 and 2006 are as follows:

	Years ended December 31,		
	2008	2007	2006
United States Federal Statutory Rate	35.0%	35.0%	(34.0%)
State income taxes (net of Federal benefits)	9.5	2.7	1.2
Expenses of Compass Group Diversified Holdings, LLC representing a pass through to shareholders	36.5	12.9	47.1
Credit utilization	(24.1)	(4.5)	(1.3)
Other	6.2	1.6	3.4
Effective income tax rate	63.1%	47.7%	16.4%

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. The adoption did not result in a cumulative adjustment to the Company's accumulated earnings. A reconciliation of the amount of unrecognized tax benefits for 2008 and 2007 are as follows *(in thousands):*

Balance at January 1, 2007	$ —
Additions for 2007 tax positions	15
Additions for prior years' tax positions	103
Balance at December 31, 2007	$ 118
Additions for prior years' tax positions	27
Reductions for prior years' tax positions	(44)
Balance at December 31, 2008	101

Included in the unrecognized tax benefits at December 31, 2008 and 2007 is $21 thousand and $17 thousand, respectively, of tax benefits that, if recognized, would affect the Company's effective tax rate. The Company accrues interest and penalties related to uncertain tax positions, as of December 31, 2008 and 2007, there is $133 thousand and $29 thousand accrued, respectively. The Company does not expect unrecognized tax benefits to change significantly over the next twelve months.

The Company and its majority owned subsidiaries file U.S. federal and state income tax returns in many jurisdictions with varying statutes of limitations. The 2004 through 2008 tax years generally remain subject to examinations by the taxing authorities.

Note N- Noncontrolling interest

Noncontrolling interest represents the portion of a majority-owned subsidiary's net income and equity that is owned by noncontrolling (minority) shareholders.

In January 2009, the Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between the reporting entity and noncontrolling interests. The adoption of SFAS 160 resulted in the presentation of noncontrolling interest as a component of equity on the Consolidated Balance Sheets and the presentation of income attributable to noncontrolling interest on the Consolidated Statements of Operations.

The following tables reflect the Company's percent ownership (on a primary basis), of its majority owned subsidiaries, which the Company refers to as its businesses, and related noncontrolling interest balances as of December 31, 2008 and 2007:

Business	% Ownership December 31, 2008	% Ownership December 31, 2007	% Ownership December 31, 2006
ACI	70.2	70.2	70.2
American Furniture	93.9	93.9	—
Anodyne	67.0	43.5	47.3
CBS Personnel	66.4	96.5	96.1
FOX	75.5	—	—
HALO	88.3	88.3	—

(in thousands)	Noncontrolling Interest Balances as of December 31, 2008	Noncontrolling Interest Balances as of December 31, 2007
ACI	$ —	$ —
American Furniture	1,910	1,770
Anodyne	10,146	13,260
CBS Personnel	54,925	3,769
FOX	9,290	—
HALO	3,060	2,968
Compass	100	100
	$ 79,431	$ 21,867

On August 8, 2008, the Company exchanged a Promissory Note (Refer to Note R) due August 15, 2008, totaling approximately $6.9 million (including accrued interest) due from the CEO of Anodyne in exchange for shares of stock of Anodyne held by the CEO. As a result of this exchange of shares, noncontrolling interest decreased by approximately $3.9 million in 2008.

On October 10, 2007, Advanced Circuits distributed approximately $47.0 million in cash distributions to Compass AC Holdings, Inc. ("ACH"), Advanced Circuits's sole shareholder, and by ACH to its shareholders, including the Company. The Company's share of the cash distribution was approximately $33.0 million with approximately $14.0 million being distributed to ACH's other shareholders. The Company funded this distribution by making additional borrowings to ACI of $47.0 million.

Note O- Stockholder's Equity

Trust Shares

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

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

In connection with the purchase of Anodyne on July 31, 2006, the Company issued 950,000 shares of the Trust as part of the payment price. The shares were valued at $13.77 per share for a total of $13.1 million.

On May 8, 2007, the Company completed a secondary public offering of 9,200,000 trust shares (including the underwriter's over-allotment of 1,200,000 shares) at an offering price of $16.00 per share. Simultaneous with the sale of the trust shares to the public, CGI purchased, through a wholly-owned subsidiary, 1,875,000 trust shares at $16.00 per share in a separate private placement. The net proceeds of the secondary offering to the Company, after deducting underwriter's discount and offering costs totaled approximately $168.7 million. The Company used a portion of the net proceeds to repay the outstanding balance on its Revolving Credit Facility.

Distributions

During the year ended December 31, 2007, the Company paid the following distributions:

- On January 24, 2007, the Company paid a distribution of $0.30 per share to holders of record as of January 18, 2007;
- On April 24, 2007, the Company paid a distribution of $0.30 per share to holders of record as of April 18, 2007;
- On July 27, 2007, the Company paid a distribution of $0.30 per share to holders of record as of July 25, 2007; and
- On October 26, 2007 the Company paid a distribution of $0.325 per share to holders of record as of October 23, 2007.

During the year ended December 31, 2008, the Company paid the following distributions:

- On January 30, 2008, the Company paid a distribution of $0.325 per share to holders of record as of January 25, 2008;
- On April 25, 2008, the Company paid a distribution of $0.325 per share to holders of record as of April 22, 2008;
- On July 29, 2008, the Company paid a distribution of $0.325 per share to holders of record as of July 24, 2008; and
- On October 31, 2008, the Company paid a distribution of $0.34 per share to holders of record as of October 24, 2008.

On January 30, 2009, the Company paid a distribution of $0.34 per share to holders of record as of January 23, 2009.

Note P — Unaudited Quarterly Financial Data

The following table presents the unaudited quarterly financial data. This information has been prepared on a basis consistent with that of the audited consolidated financial statements and all necessary material adjustments, consisting of normal recurring accruals and adjustments, have been included to present fairly the unaudited quarterly financial data. The quarterly results of operations for these periods are not necessarily indicative of future results of operations. The per share calculations for each of the quarters are based on the weighted average number of shares for each period; therefore, the sum of the quarters may not necessarily be equal to the full year per share amount.

(in thousands)	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Total revenues	$ 374,827	$ 413,601	$ 398,910	$ 351,135
Gross profit	88,603	90,995	87,861	74,808
Operating income	8,952	13,362	4,598	957
Income (loss) from continuing operations	797	4,622	(2,271)	(2,824)
Income from discontinued operations, net of income taxes	431	636	74,873	2,030
Net income (loss) attributable to Holdings	$ 1,228	$ 5,258	$ 72,602	$ (794)
Basic and fully diluted income (loss) per share attributable to Holdings:				
Continuing operations	$ 0.03	$ 0.15	$ (0.07)	$ (0.09)
Discontinued operations	0.01	0.02	2.37	0.06
Basic and fully diluted income (loss) per share attributable to Holdings	$ 0.04	$ 0.17	$ 2.30	$ (0.03)

(in thousands)	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Total revenues	$ 263,387	$ 215,476	$ 197,513	$ 165,415
Gross profit	68,156	53,608	47,689	36,330
Operating income	11,312	7,373	4,225	2,041
Income (loss) from continuing operations	(5,835)	3,455	1,382	52
Income from discontinued operations, net of income taxes	2,395	900	1,150	36,869
Net income (loss) attributable to Holdings	$ (3,440)	$ 4,355	$ 2,532	$ 36,921
Basic and fully diluted income (loss) per share attributable to Holdings:				
Continuing operations	$ (0.19)	$ 0.11	$ 0.05	$ 0.00
Discontinued operations	0.08	0.03	0.04	1.80
Basic and fully diluted income (loss) per share attributable to Holdings	$ (0.11)	$ 0.14	$ 0.09	$ 1.81

Note Q — Supplemental Data

Supplemental Balance Sheet Data (in thousands):

	December 31, 2008	December 31, 2007
Summary of accrued expenses:		
Accrued payroll and fringes	$ 25,035	$ 18,870
Accrued taxes	9,034	3,562
Income taxes payable	1,762	2,077
Accrued interest	3,512	1,300
Other accrued expenses	17,766	8,160
Total	$ 57,109	$ 33,969

Supplemental Cash Flow Statement Data (in thousands):

	December 31, 2008	December 31, 2007	December 31, 2006
Interest paid	$15,754	$ 6,489	$4,686
Taxes paid	15,971	12,136	7,821

Note R — Related Party Transactions

The Company has entered into the following related party transactions with its Manager, CGM:

- Management Services Agreement
- LLC Agreement
- Supplemental Put Agreement
- Cost Reimbursement and Fees

Management Services Agreement - The Company entered into a management services agreement ("Management Services Agreement") with CGM effective May 16, 2006. The Management Services Agreement 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. The Company amended the Management Services Agreement on November 8, 2006, to clarify that adjusted net assets are not reduced by non-cash charges associated with the Supplemental Put Agreement, which amendment was unanimously approved by the Compensation Committee and the Board of Directors. The management fee

is required to be paid prior to the payment of any distributions to shareholders. For the year ended December 31, 2008, 2007 and 2006, the Company incurred the following management fees to CGM, by entity (*in thousands*):

	December 31, 2008	December 31, 2007	December 31, 2006
Advanced Circuits	$ 500	$ 500	$ 315
American Furniture	500	167	—
Anodyne	350	350	145
CBS Personnel	1,241	1,055	674
FOX	496	—	—
HALO	500	417	—
Corporate	11,144	7,631	3,024
	$ 14,731	$ 10,120	$ 4,158

CBS Personnel paid management fees of approximately $0.5 million for the year ended December 31, 2008 to a separate manager of Staffmark, unrelated to CGM.

Approximately $0.6 million and $0.8 million of the management fees incurred were unpaid as of December 31, 2008 and 2007, respectively.

LLC Agreement - As distinguished from its provision of providing management services to the Company, pursuant to the Management Services Agreement, CGM is the owner of 100% of the Allocation Interests in the Company. CGM paid $0.1 million for these Allocation Interests and has the right to cause the Company to purchase the Allocation Interests it owns. The Allocation Interests give CGM the right to distributions pursuant to a profit allocation formula upon the occurrence of certain events. Certain events include, but are not limited to, the dispositions of subsidiaries. In connection with the dispositions of Silvue and Aeroglide in 2008 the Company paid CGM a profit allocation of $14.9 million. In connection with the disposition of Crosman in 2006, the Company paid CGM a profit allocation of $7.9 million.

Supplemental Put Agreement - Concurrent with the IPO, CGM and the Company entered into a Supplemental Put Agreement, which may require the Company to acquire these Allocation Interests upon termination of the Management Services Agreement. Essentially, the put rights granted to CGM require the Company to acquire CGM's Allocation Interests in the Company at a price based on a percentage of the increase in fair value in the Company's businesses over its basis in those businesses. Each fiscal quarter the Company estimates the fair value of its businesses for the purpose of determining its potential liability associated with the Supplemental Put Agreement. Any change in the potential liability is accrued currently as an adjustment to earnings. For the years ended December 31, 2008, 2007 and 2006, the Company recognized approximately $6.4 million, $7.4 million and $22.5 million in expense related to the Supplemental Put Agreement. The Company paid approximately $14.9 million to CGM during the year ended December 31, 2008 related to the profit allocation for the dispositions of Aeroglide and Silvue. The Company paid approximately $7.9 million to CGM during the year ended December 31, 2006 related to the profit allocation for the disposition of Crosman.

Cost Reimbursement and Fees

The Company reimbursed its Manager, CGM, approximately $2.6 million, $1.8 million and $0.7 million, principally for occupancy and staffing costs incurred by CGM on the Company's behalf during the years ended December 31, 2008, 2007 and 2006, respectively.

CGM acted as an advisor for each of the 2008 acquisitions (Fox and Staffmark) for which it received transaction service and expense payments of approximately $2.0 million. CGM acted as an advisor for each of the 2007 acquisitions (Aeroglide, HALO and American Furniture) for which it received transaction service and expense payments of approximately $2.1 million.

The Company has entered into the following related party transactions with its subsidiaries:

Anodyne

On July 31, 2006, the Company acquired from CGI and its wholly-owned, indirect subsidiary, Compass Medical Mattress Partners, LP (the "Seller") approximately 47.3% of the outstanding capital stock, on a fully-diluted basis, of Anodyne, representing approximately 69.8% of the voting power of all Anodyne stock. Pursuant to the same agreement, the Company also acquired from the Seller all of the Original Loans. On the same date, the Company entered into a Note Purchase and Sale Agreement with CGI and the Seller for the purchase from the Seller of a Promissory Note ("Note") issued by a borrower controlled by Anodyne's chief executive officer. The Note was secured by shares of Anodyne stock and guaranteed by Anodyne's chief executive officer. The Note accrued interest at the rate of 13% per annum and was added to the Note's principal balance. The balance of the Note plus accrued interest totaled approximately $6.4 million at December 31, 2007. The Note was to mature on August 15, 2008. The Company recorded interest income totaling $0.5 million, $0.8 million and $0.3 million in 2008, 2007 and 2006, respectively, related to this note.

On August 8, 2008 the Company exchanged the aforementioned Note, due August 15, 2008, totaling approximately $6.9 million (including accrued interest) due from the CEO of Anodyne in exchange for shares of stock of Anodyne held by the CEO. In addition, the CEO of Anodyne was granted an option to purchase approximately 10% of the outstanding shares of Anodyne, at a strike price exceeding the exchange price, from the Company in the future for which the CEO exchanged Anodyne stock valued at $0.2 million (the fair value of the option at the date of grant) as consideration.

CGM acted as an advisor to the Company in the Anodyne transaction for which it received transaction services fees and expense payments totaling approximately $0.3 million in 2006.

In addition, on August 5, 2008, the Company exchanged $1.5 million in term debt due from Anodyne for 15,500 shares of common stock and 13,950 shares of convertible preferred stock of Anodyne.

As a result of the above transactions the Company's ownership percentage in Anodyne increased to approximately 67% on a primary basis and 57% on a fully diluted basis.

Advanced Circuits

In connection with the acquisition of Advanced Circuits by CGI in September 2005, Advanced Circuits loaned certain officers and members of management of Advanced Circuits $3.4 million for the purchase of 136,364 shares of Advanced Circuit's common stock. On January 1, 2006, Advanced Circuits loaned certain officers and members of management of Advanced Circuits $4.8 million for the purchase of an additional 193,366 shares of Advanced Circuit's common stock. The notes bear interest at 6% and interest is added to the notes. The notes are due in September 2010 and December 2010 and are subject to mandatory prepayment provisions if certain conditions are met.

In connection with the issuance of the notes as described above, Advanced Circuits implemented a performance incentive program whereby the notes could either be partially or completely forgiven based upon the achievement of certain pre-defined financial performance targets. The measurement date for determination of any potential loan forgiveness is based on the financial performance of Advanced Circuits for the fiscal year ended December 31, 2010. The Company believes that the achievement of the loan forgiveness is probable and is accruing any potential forgiveness over a service period measured from the issuance of the notes until the actual measurement date of December 31, 2010. During each of the fiscal years 2008, 2007 and 2006, ACI accrued approximately $1.6 million for this loan forgiveness. This expense has been classified as a component of general and administrative expense. Approximately $5.2 million and $3.7 million is reflected as a component of other non-current liabilities in the consolidated balances sheets as of December 31, 2008 and 2007, respectively, in connection with these two agreements.

On October 10, 2007, the Company entered into an amendment to its Credit Agreement (the "Amendment") with ACI, to amend that certain credit agreement, dated as of May 16, 2006, between the Company and ACI (the "Credit Agreement"). The Credit Agreement was amended to (i) provide for additional term loan borrowings of $47.0 million and to permit the proceeds thereof to fund cash distributions totaling $47.0 million by ACI to Compass AC Holdings, Inc. ("ACH"), ACI's sole shareholder, and by ACH to its shareholders, including the Company, (ii) extend the maturity dates of the loans under the Credit Agreement, and (iii) modify certain financial covenants of ACI under the Credit Agreement. The Company's share of the cash distribution was approximately $33.0 million with approximately $14.0 million being distributed to ACH's other shareholders. All other material terms and conditions of the Credit Agreement were unchanged.

American Furniture

AFM's largest supplier, Independent Furniture Supply ("Independent"), is 50% owned by Mike Thomas, AFM's CEO. AFM purchases polyfoam from Independent on an arms-length basis and AFM performs regular audits to verify market pricing. AFM does not have any long-term supply contracts with Independent. Total purchases from Independent during 2008 totaled approximately $18.4 million. From August 31, 2007 (acquisition date) through December 31, 2007, purchases from Independent totaled approximately $8.4 million.

Fox

The Company leases its principal manufacturing and office facilities in Watsonville, California from Robert Fox, a founder, Chief Engineering Officer and noncontrolling shareholder of Fox. The term of the lease is through July of 2018 and the rental payments can be adjusted annually for a cost-of-living increase based upon the consumer price index. Fox is responsible for all real estate taxes, insurance and maintenance related to this property. The leased facilities are 86,000 square feet and Fox paid rent under this lease of approximately $1.0 million for the year ended December 31, 2008.

Other

The Company reimbursed CGI, which owns 22.3% of the Trust shares, approximately $2.5 million for costs incurred by CGI in connection with the Company's IPO in 2006.

Note S — Subsequent Events

On February 18, 2009, the Company reduced its debt and repaid at par, from cash on its balance sheet, $75.0 million of debt under its Term Loan Facility due in December of 2013. Under the terms of its Credit Agreement, the Company was permitted and elected to hold approximately $75 million of the proceeds from the sales of Aeroglide and Silvue, under the condition that such proceeds be either redeployed into future acquisitions or applied to reduce indebtedness under the Term Loan Facility within one year. After the repayment, the Company has $78.0 million of remaining debt outstanding under its Term Loan Facility. In connection with the repayment, the Company also terminated $70.0 million of its $140.0 million interest rate swap at a cost of approximately $2.6 million. The Company reclassified this amount from accumulated other comprehensive loss into earnings during the first quarter of 2009. In addition, the Company expensed $1.2 million of capitalized debt issuance costs in the first quarter of 2009 in connection with the debt repayment.

SCHEDULE II –Valuation and Qualifying Accounts

(in thousands)	Balance at beginning of Year	Additions: Charge to Costs and Expense	Additions: Other	Deductions	Balance at end of Year
Allowance for doubtful accounts - 2006	$3,128(1)	$1,061	$ —	$ 882(3)	$3,307
Allowance for doubtful accounts - 2007	$3,307	$2,134	$ 825(2)	$3,062(3)	$3,204
Allowance for doubtful accounts - 2008	$3,204	$3,917	$1,778(2)	$4,075(3)	$4,824
Valuation allowance for deferred tax assets - 2006	$ —	$ —	$ —	$ —	$ —
Valuation allowance for deferred tax assets - 2007	$ —	$ 359	$ —	$ —	$ 359
Valuation allowance for deferred tax assets - 2008	$ 359	$ —	$ —	$ 359(4)	$ —

(1) Balance at beginning of year for 2006, is May 16, 2006, the date the Company acquired the initial businesses.

(2) Represents opening allowance balances related to current year acquisitions.

(3) Represent write-offs and rebate payments.

(4) Represents utilization of deferred tax asset and corresponding removal of valuation allowance.