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

Form 10-Q

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from __________ to __________

COMPASS DIVERSIFIED HOLDINGS

(Exact name of registrant as specified in its charter)

Delaware	**0-51937**	**57-6218917**
(State or other jurisdiction of incorporation or organization)	*(Commission file number)*	*(I.R.S. employer identification number)*

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Delaware	**0-51938**	**20-3812051**
(State or other jurisdiction of incorporation or organization)	*(Commission file number)*	*(I.R.S. employer identification number)*

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

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

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

Yes ☑ No o

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

Large accelerated filer o Accelerated filer ☑ Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

Yes o No ☑

As of November 1, 2008, there were 31,525,000 shares of
Compass Diversified Holdings outstanding.

COMPASS DIVERSIFIED HOLDINGS

QUARTERLY REPORT ON FORM 10-Q
For the period ended September 30, 2008

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NOTE TO READER

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

- the “Trust” and “Holdings” refer to Compass Diversified Holdings;
- “businesses” refer to, collectively, the businesses controlled by the Company;
- the “Company” refer to Compass Group Diversified Holdings LLC;
- the “Manager” refer to Compass Group Management LLC (“CGM”);
- the “initial businesses” refer to, collectively, CBS Personnel Holdings, Inc., Crosman Acquisition Corporation, Compass AC Holdings, Inc. and Silvue Technologies Group, Inc.;
- the “2007 acquisitions” refer to, collectively, the acquisitions of Aeroglide Corporation, HALO Branded Solutions and American Furniture Manufacturing;
- the “2008 acquisitions” refer to, collectively, the acquisitions of Fox Factory Inc. and Staffmark Investment LLC;
- the “2007 disposition” refers to, the sale of Crosman Acquisition Corporation;
- the “2008 dispositions” refer to, collectively, the sales of Aeroglide Corporation and Silvue Technologies Group, Inc.;
- the “Trust Agreement” refer to the amended and restated Trust Agreement of the Trust dated as of April 25, 2007;
- the “Credit Agreement” refer to the Credit Agreement with a group of lenders led by Madison Capital, LLC which provides for a Revolving Credit Facility and a Term Loan Facility;
- the “Revolving Credit Facility” refer to the $340 million Revolving Credit Facility provided by the Credit Agreement that matures in December 2012;
- the “Term Loan Facility” refer to the $153.5 million Term Loan Facility, as of September 30, 2008, provided by the Credit Agreement that matures in December 2013;
- the “LLC Agreement” refer to the second amended and restated operating agreement of the Company dated as of January 9, 2007; and
- “we”, “us” and “our” refer to the Trust, the Company and the businesses together.

FORWARD-LOOKING STATEMENTS

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

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

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

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

PART I
FINANCIAL INFORMATION

ITEM 1. — FINANCIAL STATEMENTS

Compass Diversified Holdings
Condensed Consolidated Balance Sheets

(in thousands)	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 89,676	$ 115,500
Accounts receivable, less allowances of $6,190 at September 30, 2008 and $3,204 at December 31, 2007	192,907	111,718
Inventories	50,418	35,492
Prepaid expenses and other current assets	25,037	11,088
Current assets of discontinued operations	—	25,443
Total current assets	358,038	299,241
Property, plant and equipment, net	29,804	20,437
Goodwill	314,346	218,817
Intangible assets, net	255,684	163,378
Deferred debt issuance costs, less accumulated amortization of $2,821 at September 30, 2008 and $1,348 at December 31, 2007	8,722	9,613
Other non-current assets	17,926	17,549
Assets of discontinued operations	—	98,967
Total assets	$ 984,520	$ 828,002
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 43,049	$ 34,306
Accrued expenses	80,628	33,969
Due to related party	689	814
Current portion, long-term debt	2,000	2,000
Current portion of workers' compensation liability	27,836	6,881
Other current liabilities	511	560
Current liabilities of discontinued operations	—	28,083
Total current liabilities	154,713	106,613
Supplemental put obligation	12,858	21,976
Deferred income taxes	63,043	59,478
Long-term debt	151,500	148,000
Workers' compensation liability	39,369	16,791
Other non-current liabilities	5,921	4,628
Non-current liabilities of discontinued operations	—	15,799
Total liabilities	427,404	373,285
Minority interests	77,510	21,867
Stockholders' equity		
Trust shares, no par value, 500,000 authorized; 31,525 shares issued and outstanding at September 30, 2008 and December 31, 2007	412,969	443,705
Accumulated other comprehensive income	426	—
Accumulated earnings (deficit)	66,211	(10,855)
Total stockholders' equity	479,606	432,850
Total liabilities and stockholders' equity	$ 984,520	$ 828,002

See notes to condensed consolidated financial statements.

Compass Diversified Holdings
Condensed Consolidated Statements of Operations
(unaudited)

(in thousands, except per share data)	Three-months Ended September 30, 2008	Three-months Ended September 30, 2007	Nine-months Ended September 30, 2008	Nine-months Ended September 30, 2007
Net sales	$ 147,956	$ 72,081	$ 391,838	$ 156,677
Service revenues	265,645	143,395	771,808	421,727
	413,601	215,476	1,163,646	578,404
Cost of sales	101,310	45,099	268,632	95,880
Cost of services	221,296	116,769	641,350	344,897
Gross profit	90,995	53,608	253,664	137,627
Operating expenses:				
Staffing expense	25,872	13,440	78,412	41,922
Selling, general and administrative expense	42,597	24,818	121,121	61,642
Supplemental put expense	(765)	2,174	5,829	4,591
Fees to manager	3,758	2,479	10,953	6,921
Amortization expense	6,171	3,324	18,432	8,912
Operating income	13,362	7,373	18,917	13,639
Other income (expense):				
Interest income	559	568	1,140	1,895
Interest expense	(4,199)	(1,184)	(13,545)	(4,215)
Amortization of debt issuance costs	(491)	(305)	(1,473)	(858)
Other income, net	48	247	405	248
Income from continuing operations before income taxes and minority interest	9,279	6,699	5,444	10,709
Provision for income taxes	3,067	2,706	3,622	5,381
Minority interest	1,590	538	2,295	439
Income (loss) from continuing operations	4,622	3,455	(473)	4,889
Income from discontinued operations, net of income tax	—	900	4,607	2,881
Gain on sale of discontinued operations, net of income tax	636	—	72,932	36,038
Net income	$ 5,258	$ 4,355	$ 77,066	$ 43,808
Basic and fully diluted income (loss) per share from continuing operations	$ 0.15	$ 0.11	$ (0.02)	$ 0.19
Basic and fully diluted income per share from discontinued operations	$ 0.02	0.03	2.46	1.48
Basic and fully diluted net income per share	$ 0.17	$ 0.14	$ 2.44	$ 1.67
Weighted average number of shares of trust stock outstanding - - basic and fully diluted	31,525	31,525	31,525	26,316
Cash distributions declared per share	$ 0.34	$ 0.325	$ 0.99	$ 0.925

See notes to condensed consolidated financial statements.

Compass Diversified Holdings

Condensed Consolidated Statement of Stockholders' Equity
(unaudited)

(in thousands)	Number of Shares	Amount	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance — December 31, 2007	31,525	$ 443,705	$ (10,855)	$ —	$ 432,850
Distributions paid	—	(30,736)	—	—	(30,736)
Other comprehensive income — cash flow hedge	—	—	—	426	426
Net income	—	—	77,066	—	77,066
Balance — September 30, 2008	31,525	$ 412,969	$ 66,211	$ 426	$ 479,606

See notes to condensed consolidated financial statements.

Compass Diversified Holdings
Condensed Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities:		
Net income	$ 77,066	$ 43,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of 2008 dispositions	(72,932)	—
Gain on sale of 2007 disposition	—	(36,038)
Depreciation expense	6,968	3,606
Amortization expense	19,612	14,382
Amortization of debt issuance costs	1,445	857
Supplemental put expense	5,829	4,591
Minority interests	2,844	869
Minority stockholder charges	1,943	226
Deferred taxes	(7,010)	(2,373)
Other	296	—
Changes in operating assets and liabilities, net of acquisition:		
Increase in accounts receivable	(310)	(14,511)
(Increase)/decrease in inventories	93	(787)
(Increase)/decrease in prepaid expenses and other current assets	(8,672)	2,433
Increase in accounts payable and accrued expenses	13,631	12,386
Decrease in supplemental put obligation	(14,947)	(7,880)
Net cash provided by operating activities	25,856	21,569
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(173,561)	(224,799)
Purchases of property and equipment	(8,587)	(4,969)
Proceeds from 2008 dispositions	153,439	—
Proceeds from 2007 disposition	—	119,856
Other investing activities	(328)	—
Net cash used in investing activities	(29,037)	(109,912)
Cash flows from financing activities:		
Proceeds from the issuance of Trust shares, net	—	168,673
Repayments under Credit Agreement	(77,032)	(202,764)
Borrowings under Credit Agreement	80,000	142,031
Debt issuance costs	(551)	(1,079)
Distributions paid	(30,736)	(21,728)
Other	1,898	2,655
Net cash (used in) provided by financing activities	(26,421)	87,788
Foreign currency adjustment	(80)	(54)
Net decrease in cash and cash equivalents	(29,682)	(609)
Cash and cash equivalents — beginning of period	119,358	7,006
Cash and cash equivalents — end of period	$ 89,676	$ 6,397
Cash related to discontinued operations	$ —	$ 2,918

Supplemental non-cash financing and investing activity for the nine-months ended September 30, 2008:

- Issuance of CBS Personnel’s common stock valued at $47.9 million in connection with the acquisition of Staffmark. See Note D.
- 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 O.

See notes to condensed consolidated financial statements.

Note A — Organization and business operations

Compass Diversified Holdings, a Delaware statutory trust (“Holdings”), was organized 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”).

Note B — Presentation and principles of consolidation

The condensed consolidated financial statements for the three-and nine-month periods ended September 30, 2008 and 2007, (recast for discontinued operations), are unaudited, and in the opinion of management, contain all adjustments necessary for a fair presentation of the condensed consolidated financial statements. Such adjustments consist solely of normal recurring items. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of the Company. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

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

Note C —Recent accounting pronouncements

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, 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.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* . The purpose of this statement is to improve financial reporting by providing a consistent framework for determining applicable accounting principles to be used in the preparation of financial statements presented in conformity with accounting principles generally accepted in the United States of America. SFAS No. 162 will become effective 60 days after the SEC’s approval. The Company believes that the adoption of this standard on the effective date will not have a material effect on its consolidated financial statements.

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* ” 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 financial statements.

Note D — Acquisition of businesses

Acquisition of Fox Factory

On January 4, 2008, Fox Factory Holding Corp., a subsidiary of the Company, entered into a Share Purchase Agreement with Fox Factory, Inc. (“Fox”) and Robert C. Fox, Jr., the sole shareholder of Fox, to purchase, and consummated the purchase of 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 76.0% 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 minority 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.

Identifiable intangible assets recorded as a result of this acquisition aggregated approximately $57.5 million and includes the value assigned to trademarks of $13.3 million which is not subject to amortization.

The Company’s Manager, acted as an advisor to the Company in the transaction, and received fees and expense payments totaling approximately $0.9 million.

Acquisition of 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 CBS Personnel’s financial statements 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.

Identifiable intangible assets recorded as a result of this acquisition aggregated approximately $50.1 million.

The Company’s ownership percentage of CBS Personnel is 68.7% on a primary basis and 66.7% 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.

Unaudited Pro Forma Information

The following unaudited pro forma data for the nine months ended September 30, 2008 and 2007 gives effect to the acquisitions of Fox and Staffmark, as described above, as if the acquisitions had been completed as of January 1, 2008 and January 1, 2007, respectively. The pro forma data gives effect to actual operating results and adjustments to interest expense, amortization and depreciation expense, management fees and minority interests in the acquired businesses. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transactions had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representing results for any future period.

Nine- months ended September 30, 2008 *(in thousands, except per share data)*	Total
Net sales	$1,194,719
Income (loss) from continuing operations before income taxes and minority interests	5,539
Net income	77,038
Basic and fully diluted income per share	$ 2.44

Nine- months ended September 30, 2007 *(in thousands, except per share data)*	Total
Net sales	$1,088,533
Income (loss) from continuing operations before income taxes and minority interests	3,786
Net income	40,548
Basic and fully diluted income per share	$ 1.54

Note E — Disposition of businesses

2007 Disposition

On January 5, 2007, the Company sold its majority owned subsidiary, Crosman Acquisition Corporation (“Crosman”) for $143.0 million. The Company’s share of the net proceeds, after accounting for the redemption of Crosman’s minority holders and the payment of CGM’s profit allocation of $7.9 million, 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.

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 minority 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 minority 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 $39.0 million or $1.24 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. It is anticipated that the remaining net proceeds from the 2008 dispositions will be invested in short term investment-grade securities pending future application for partial funding of future acquisitions when identified.

Summarized operating results for the 2008 dispositions through the dates of the respective sales were as follows:

	Aeroglide Corporation		
	For the Three Months Ended September 30, 2007	For the Period January 1, 2008 through Disposition	For the Nine Months Ended September 30, 2007
Net sales	$ 14,475	$ 34,294	$ 35,038
Operating income	(215)	5,041	26
Other income (expense)	2	(11)	(1)
Provision (benefit) for income taxes	(457)	1,274	(906)
Minority interests	(86)	239	(53)
Income from discontinued operations [1]	$ 330	$ 3,517	$ 984

[1] The results above for the period January 1, 2008 through dispostion exclude $1.6 million of intercompany interest expense.

The results for the three and nine-month periods ended September 30, 2007 exclude $1.0 million and $2.4 million, respectively, of intercompany interest expense.

	Silvue Technologies Group, Inc.		
	For the Three Months Ended September 30, 2007	For the Period January 1, 2008 through Disposition	For the Nine Months Ended September 30, 2007
Net sales	$ 5,331	$ 11,465	$ 16,378
Operating income	1,224	2,416	3,632
Other income (expense)	(24)	(83)	(28)
Provision for income taxes	462	933	1,224
Minority interests	168	310	483
Income from discontinued operations[1]	$ 570	$ 1,090	$ 1,897

[1] The results above for the period January 1, 2008 through dispostion exclude $0.6 million of intercompany interest expense.

The results for the three and nine-month periods ended September 30, 2007 exclude $0.4 million and $1.2 million, respectively, of intercompany interest expense.

The following table presents summary balance sheet information for the 2008 dispositions as of December 31, 2007:

	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
Minority interests	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 F — Business segment data

At September 30, 2008, the Company has six reportable business segments. Each business segment represents an acquisition. 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.

- 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.

- 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.
- 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 Condensed Consolidated Financial Statements. The operations of each of the businesses are included in consolidated operating results as of their date of acquisition. There are no inter-segment transactions.

A disaggregation of the Company’s consolidated revenue and other financial data for the three and nine-month periods ended September 30, 2008 and 2007, is presented below (in thousands).

	Three-months Ended September 30, 2008	Three-months Ended September 30, 2007	Nine-months Ended September 30, 2008	Nine-months Ended September 30, 2007
Net sales of business segments				
ACI	$ 14,163	$ 12,965	$ 42,741	$ 39,088
American Furniture	31,386	11,498	99,827	11,498
Anodyne	16,510	11,011	40,954	29,524
CBS Personnel	265,645	143,395	771,808	421,727
Fox	43,326	—	101,178	—
Halo	42,571	36,607	107,138	76,567
Total	413,601	215,476	1,163,646	578,404
Reconciliation of segment revenues to consolidated revenues:				
Corporate and other	—	—	—	—
Total consolidated revenues	$ 413,601	$ 215,476	$ 1,163,646	$ 578,404

	Three-months Ended September 30, 2008	Three-months Ended September 30, 2007	Nine-months Ended September 30, 2008	Nine-months Ended September 30, 2007
Profit of business segments *(1)*				
ACI	$ 4,630	$ 4,186	$ 13,868	$ 13,381
American Furniture	227	651	5,153	651
Anodyne	1,733	1,114	3,288	1,813
CBS Personnel	4,779	6,328	10,534	14,693
Fox	6,413	—	9,375	—
Halo	1,285	1,854	1,039	1,857
Total	19,067	14,133	43,257	32,395
Reconciliation of segment profit to consolidated income (loss) from continuing operations before income taxes and minority interest:				
Interest expense, net	(3,640)	(616)	(12,405)	(2,320)
Other income	48	247	405	248
Corporate and other (2)	(6,196)	(7,065)	(25,813)	(19,614)
Total consolidated income from continuing operations before income taxes and minority interest	$ 9,279	$ 6,699	$ 5,444	$ 10,709

(1) Segment profit represents operating income.

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

	Accounts Receivable as of September 30, 2008	Accounts Receivable as of December 31, 2007
Accounts receivable and allowances		
ACI	$ 3,647	$ 2,913
American Furniture	13,408	10,965
Anodyne	8,948	8,687
CBS Personnel	128,922	62,537
Fox	17,417	—
Halo	26,755	29,820
Total	199,097	114,922
Reconciliation of segments to consolidated total:		
Corporate and other	—	—
Total	199,097	114,922
Allowance for doubtful accounts	(6,190)	(3,204)
Total consolidated net accounts receivable	$ 192,907	$ 111,718

	Goodwill September 30, 2008	Goodwill Dec. 31, 2007	Identifiable Assets September 30, 2008(3)	Identifiable Assets Dec. 31, 2007(3)	Depreciation and Amortization Expense for Three-months Ended September 30,		Depreciation and Amortization Expense for Nine-months Ended September 30,	
					2008	2007	2008	2007
Goodwill and identifiable assets of business segments								
ACI	$ 50,659	$ 50,659	$ 21,932	$ 22,608	$ 942	$ 882	$ 2,768	$ 2,645
American Furniture	41,471	41,471	63,416	71,110	928	468	2,789	468
Anodyne	22,747	19,555	21,612	25,713	684	550	2,037	1,498
CBS Personnel	137,860	60,768	85,807	24,808	2,161	597	6,039	1,687
Fox	9,518	—	81,771	—	1,620	—	5,138	—
Halo	39,108	33,381	50,799	41,645	796	706	2,271	1,586
Total	301,363	205,834	325,337	185,884	7,131	3,203	21,042	7,884
Reconciliation of segments to consolidated amount:								
Corporate and other identifiable assets	—	—	151,930	249,184	1,194	1,189	3,585	3,589
Identifiable assets of disc. ops.	—	—	—	62,398	—	—	—	—
Amortization of debt issuance costs	—	—	—	—	491	305	1,473	858
Goodwill carried at Corporate level (4)	12,983	12,983	—	—	—	—	—	—
Total	$ 314,346	$ 218,817	$ 477,267	$ 497,466	$ 8,816	$ 4,697	$ 26,100	$ 12,331

(3) Does not include accounts receivable balances per schedule above.

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

Note G — Property, plant and equipment and inventory

Property, plant and equipment is comprised of the following at September 30, 2008 and December 31, 2007 (in thousands):

	September 30, 2008 (Unaudited)	December 31, 2007
Machinery and equipment	$ 23,979	$ 12,062
Office furniture and equipment	10,252	8,564
Buildings and building improvements	1,184	1,184
Leasehold improvements	4,455	3,252
	39,870	25,062
Less: accumulated depreciation	(10,066)	(4,625)
Total	$ 29,804	$ 20,437

Depreciation expense was $2.2 million and $6.2 million for the three- and nine-month periods ended September 30, 2008, respectively. These amounts exclude $0.5 million and $0.3 million of depreciation expense for Aeroglide and Silvue, respectively, for the nine months ended September 30, 2008.

Inventory is comprised of the following at September 30, 2008 and December 31, 2007 (in thousands):

	September 30, 2008 (Unaudited)	December 31, 2007
Raw materials and supplies	$ 37,406	$ 20,899
Finished goods	14,035	15,062
Less: obsolescence reserve	(1,023)	(469)
Total	$ 50,418	$ 35,492

Note H — Goodwill and other intangible assets

A reconciliation of the change in the carrying value of goodwill for the nine-month period ended September 30, 2008 and the year ended December 31, 2007 is as follows (in thousands):

Balance at Jan. 1, 2007	$ 140,690
Acquisition of businesses [1]	76,387
Adjustment to purchase accounting (1)	1,740
Balance at Dec. 31, 2007	218,817
Acquisition of businesses [1]	92,251
Acquired goodwill in connection with Anodyne CEO promissory note (See Note O)	3,191
Adjustment to purchase accounting [1]	87
Balance at September 30, 2008	$ 314,346

[1] Initial purchase price allocations may be adjusted within one year for changes in estimates of the fair value of assets acquired and liabilities assumed.

Other intangible assets subject to amortization are comprised of the following at September 30, 2008 (in thousands):

	September 30, 2008
Customer relations	$ 187,701
Technology	37,959
Licensing agreements and anti-piracy covenants	28,911
Distributor relations and backlog	1,380
	255,951
Accumulated amortization	(37,037)
Trade names, not subject to amortization	36,770
Total	$ 255,684

Amortization expense was $6.2 million and $18.4 million during the three- and nine-month periods ended September 30, 2008, respectively. These amounts exclude $0.8 million and $0.3 million of amortization expense for the nine months ended September 30, 2008 for Aeroglide and Silvue, respectively.

Note I — Debt

At September 30, 2008, the Company had $153.5 million outstanding of its Term Loan Facility under its Credit Agreement. The Credit Agreement provides for a Revolving Credit Facility totaling $325 million which matures in December 2012 and a Term Loan Facility totaling $153.5 million which matures in December 2013. The Term Loan Facility requires quarterly payments of $0.5 million with a final payment of the outstanding principal balance due on December 7, 2013. The Credit Agreement permits the Company to increase, over the next two years, the amount available under the Revolving Credit Facility by up to $25 million and the Term Loan Facility by up to $145 million, subject to certain restrictions and Lender approval.

The Company increased its Revolving Credit Facility from $325 million to $340 million on August 4, 2008. The Company had no outstanding borrowings under its Revolving Credit Facility at September 30, 2008.

The Company had approximately $284.9 million in borrowing base availability under its Revolving Credit Facility at September 30, 2008. Letters of credit outstanding at September 30, 2008 totaled approximately $64.0 million.

At September 30, 2008, the Company was in compliance with all covenants.

On January 22, 2008, we entered into a three-year interest rate swap (“Swap”) agreement with a bank, fixing the rate of $140 million of Term Loan debt 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.

Note J — Fair value measurement

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” (“SFAS 157”), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies to other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model.

In February 2008 the FASB issued FASB Staff Positions (“FSP”) 157-1 and 157-2. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, “Accounting for Leases,” (“SFAS 13”) and its related interpretive accounting pronouncements that address leasing transactions, while FSP 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Company adopted 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 we have not applied the provisions of SFAS 157 include those measured at fair value in our 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 our 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 September 30, 2008 (in thousands):

	Fair Value Measurements at September 30, 2008			
	Total Carrying Value at September 30, 2008	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative asset — interest rate swap	$ 426	$—	$426	$ —
Supplemental put	12,858	—	—	12,858
Stock option of minority shareholder[1]	200	—	200	—

[1] Represents a former employee's option to purchase additional common stock in Anodyne. See Note O.

A reconciliation of the change in the carrying value of our level 3, supplemental put liability for the three- and nine-month periods ended September 30, 2008 is as follows (in thousands):

Balance at January 1, 2008	$ 21,976
Charges included in earnings	5,829
Payments of supplemental put liability	(14,947)
Balance at September 30, 2008	$ 12,858
Balance at July 1, 2008	$ 28,570
Charges included in earnings	(765)
Payments of supplemental put liability	(14,947)
Balance at September 30, 2008	$ 12,858

Valuation Techniques

The Company's derivative instrument consists of an over-the-counter (OTC) 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 minority 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 minority shareholder as Level 2.

Our Manager, CGM is also the owner of 100% of the allocation interests in the Company. Concurrent with the IPO, CGM and the Company entered into a Supplemental Put Agreement, which 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 we estimate the fair value of our businesses using a discounted future cash flow model for the purpose of determining our potential liability associated with the Supplemental Put Agreement. We use 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 our businesses and (ii) financial and market data of comparable merged, sold or acquired companies. Any change in the potential liability is accrued currently as a non-cash 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 — Derivative instruments and hedging activities

On January 22, 2008 the Company entered into a three-year interest rate swap (“Swap”) agreement with a bank, fixing the rate of $140 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 Company is using the Swap to manage interest rate exposure. The Swap is designated as a cash flow hedge, accordingly, changes in the fair value of the swap are recorded in stockholders equity as a component of accumulated other comprehensive income. At September 30, 2008, the unrealized gain on the Swap, reflected in accumulated other comprehensive income, was approximately $0.4 million.

Note L — Comprehensive income

The following table sets forth the computation of comprehensive income for the nine months ended September 30, 2008 and September 30, 2007, respectively:

	Nine-months ended September 30,	
	2008	2007
Net income	$ 77,066	$ 43,808
Other comprehensive income:		
Unrealized gain on cash flow hedge	426	—
Total comprehensive income	$ 77,492	$ 43,808

Note M — Stockholder’s equity

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

- On 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.
- On October 31, 2008 the Company paid a distribution of $0.34 per share to holders of record as of October 24, 2008.

Note N — Commitments and contingencies

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

American Furniture Fire

On February, 12, 2008, American Furniture's 1.2 million square foot corporate office and manufacturing facility in Ecru, Mississippi 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. As of November 7, 2008 the damaged manufacturing facility and corporate office were substantially restored and operating.

The three and nine month results of operations for the periods ended September 30, 2008 for American Furniture reflect a reduction in cost of sales of approximately $1.3 million for the nine-month period and a reduction of selling, general and administrative expenses of approximately $0.3 million and $3.1 million, respectively, which reflects the expected benefit of the business interruption insurance proceeds to be received. The split of the business insurance accrual between cost of sales and selling, general and administrative expense was done to reflect a normalized gross profit percentage based on the actual sales level achieved with the balance recorded as a negative selling and general administrative expense item reflecting the estimated loss of operating income resulting from the fire. The Company is currently in the process of evaluating its claims with its insurance carriers, and as such the insurance claims may be subject to refinement.

Note O — Related party transactions

On August 8, 2008 the Company exchanged a promissory 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.

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.

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

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

Overview

Compass Diversified Holdings, a Delaware statutory trust, was organized 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, dated as of April 25, 2006 (the "Trust Agreement"), the Trust is sole owner of 100% of the Trust Interests (as defined in the LLC Agreement) of the Company and, pursuant to the LLC Agreement, the Company has outstanding, the identical number of Trust Interests as the number of outstanding shares of the Trust. The 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 $40 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 Credit Agreement, 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, particularly in the current credit environment, and is highly unusual in the marketplace for acquisitions in which we operate.

Areas of focus

The areas of focus for Q4 2008 and fiscal 2009, which are generally applicable to each of our businesses, include:

- Achieving productivity savings and price increases to offset inflation and a struggling macroeconomic climate;
- Achieving sales growth, technological excellence and manufacturing capability through global expansion of our existing businesses, especially focused on emerging regions in China;
- Continuing to grow through disciplined acquisition and rigorous integration processes;
- Proactively managing raw material cost increases, particularly commodity costs; and
- Driving free cash flow through increased net income and effective working capital management enabling continued investment in our businesses, strategic acquisitions, which in turn will enable us to return value to our shareholders.

The current deteriorating macroeconomic environment presents a challenging market for our businesses, particularly CBS Personnel, American Furniture and Halo, in which it will be difficult to achieve cash flow growth in the short term. However, we believe increased value to our shareholders can still be achieved through a combination of a focus on innovation to support productivity and disciplined expense control, while we continue to invest prudently for long-term profitable growth.

2008 highlights

Acquisition of Fox Factory

On January 4, 2008, we purchased a controlling interest in Fox, 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. We made loans to and purchased a controlling interest in Fox for approximately $80.4 million, representing approximately 76.0% 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 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 Stock Purchase Agreement, CBS Personnel purchased all of the outstanding equity interests of Staffmark for a total purchase price, including fees and transaction costs, of approximately $133.8 million. The aggregate purchase price consisted of cash and 1,929,089 shares of CBS Personnel common stock, valued at approximately $47.9 million. Our ownership percentage of CBS Personnel is 68.7% on a primary basis and 66.7% on a fully diluted basis subsequent to the Staffmark acquisition.

American Furniture Fire

On February, 12, 2008, American Furniture's 1.2 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. As of November 7, 2008 the damaged manufacturing facility and corporate offices were substantially restored and operating.

The nine-month results of operations for American Furniture reflect a reduction in cost of sales of approximately $1.3 million and a reduction of selling, general and administrative expenses of approximately $3.1 million which reflects the expected benefit of the business interruption insurance proceeds to be received. The split of the business insurance accrual between cost of sales and selling general and administrative expense was done to reflect a normalized gross profit percentage based on the actual sales level achieved with the balance recorded as a negative selling and general administrative expense item reflecting the estimated loss of operating income resulting from the fire.

Aeroglide disposition

On June 24, 2008, we sold our majority owned subsidiary, Aeroglide, for a total enterprise value of $95.0 million. Our share of the net proceeds, after accounting for the redemption of Aeroglide's minority 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 minority 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 $39.0 million or $1.24 per share.

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 CBS Personnel	Anodyne	HALO	American Furniture	Fox Factory

As noted above, we acquired our businesses on various dates through January 4, 2008. As a result, we cannot provide a meaningful comparison of our consolidated results of operations for the entire three- and nine-month periods ended September 30, 2008 compared to the same periods in 2007. In the following results of operations, we provide: (i) our consolidated results of operations for the three and nine months ended September 30, 2008 and September 30, 2007, which includes the results of operations of our businesses (segments) from the date of acquisition, and (ii) comparative results of operations for each of our businesses, on a stand-alone basis, for each of the three and nine-month periods ended September 30, 2008 and 2007 which include pro-forma results of operations for businesses acquired subsequent to January 1, 2007 that include pro-forma operating data for periods prior to our acquisition of the business in order to provide meaningful comparative data.

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

(in thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net sales	$ 413,601	$ 215,476	$ 1,163,646	$ 578,404
Cost of sales	322,606	161,868	909,982	440,777
Gross profit	90,995	53,608	253,664	137,627
Selling, general and administrative expense	68,469	38,258	199,533	103,564
Fees to manager	3,758	2,479	10,953	6,921
Supplemental put cost	(765)	2,174	5,829	4,591
Amortization of intangibles	6,171	3,324	18,432	8,912
Operating income	$ 13,362	$ 7,373	$ 18,917	$ 13,639

Net sales

On a consolidated basis, net sales increased approximately $198.1 million and $585.2 million in the three and nine month periods ended September 30, 2008, respectively. The majority of this increase is due to: (i) increased revenues ($350.1 million year -to-date) at CBS Personnel principally resulting from the acquisition of Staffmark in January 2008 by CBS Personnel; (ii) increased net sales in 2008 attributable to our majority owned subsidiary American Furniture purchased in August 2007 ($94.9 million year-to-date); (iii) increased net sales in 2008 attributable to our majority owned subsidiary, Fox Factory purchased in January 2008 ($101.2 million year-to-date) and (iv) increased net sales attributable to HALO in 2008 ($24.6 million), purchased on February 28, 2007. Refer to the following results of operations by segment for 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 $160.7 million and $469.2 million in the three and nine month periods ended September 30, 2008, respectively. These increases are due almost entirely to the corresponding increase in net sales referred to above. Refer to the following results of operations by segment for a more detailed analysis of cost of sales.

Selling, general and administrative expense

On a consolidated basis, selling, general and administrative expense increased approximately $30.2 million and $96.0 million in the three and nine month periods ended September 30, 2008, respectively. This increase is due to those costs associated with the acquisitions consummated subsequent to January 1, 2007, which include Halo, American Furniture and Fox and the add -on acquisition, Staffmark. Refer to the following results of operations by segment for a more detailed analysis of selling, general and administrative expense by segment. At the corporate level selling, general and administrative costs increased $0.8 million and $1.3 million in the three and nine months ended September 30, 2008 compared to the same periods in 2007 due principally to increased salaries and professional fees resulting from the increased size and scope of the operations.

Fees to manager

Pursuant to the Management Services Agreement, we pay CGM a quarterly management fee equal to 0.5% (2.0% annually) of our consolidated adjusted net assets. We accrue for the management fee on a quarterly basis. For the three-months ended September 30, 2008 and 2007 we incurred approximately $3.8 million and $2.5 million, respectively, in expense for these fees. For the nine-months ended September 30, 2008 and 2007 we incurred approximately $11.0 million and $6.9 million, respectively, in expense for these fees. The increase in management fees for both the three and nine months ended September 30, 2008 is due to the increase in consolidated adjusted net assets resulting from our acquisitions of new businesses and Staffmark.

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. We accrued approximately $5.8 million and $4.6 million in non-cash expense during the nine-months ended September 30, 2008 and September 30, 2007, respectively in connection with this agreement. During the three months ended September 30, 2008 we reversed approximately $0.8 million in supplemental put expense based on lower valuations attributed to some of our subsidiaries compared to valuations determined as of June 30, 2008. This expense represents that portion of the estimated increase/decrease in the value of our original businesses over our basis in those businesses that our Manager is entitled to if the Management Services Agreement were terminated or those businesses were sold. The change in supplemental put cost in both the three- and nine-months ended September 30, 2008 is attributable to the decrease/increase in the fair value of our businesses.

Amortization of intangibles

On a consolidated basis, amortization expense of intangible assets increased approximately $2.8 million and $9.5 million in the three- and nine-month periods ended September 30, 2008, respectively. 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 January 2007. Refer to the following results of operations by segment for 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 on May 16, 2006 (see table above). As a result, our consolidated operating results and discussion above only include the results of operations since the acquisition date associated with the business. The following discussion reflects a comparison of the historical and where appropriate, pro-forma results of operations for each of our businesses for the three- and nine-month periods ending September 30, 2008 and September 30, 2007, which we believe is a more meaningful comparison in explaining the comparative financial performance of each of our businesses. The following results of operations are not necessarily indicative of the results to be expected for the full year going forward.

Advanced Circuits

Overview

Advanced Circuits is a provider of prototype, quick-turn and volume production printed circuit boards ("PCBs") to customers throughout the United States. Collectively, prototype and quick-turn PCBs represent approximately two-thirds of Advanced Circuits' gross revenues. Prototype and quick-turn PCBs typically command higher margins than volume production given that customers require high levels of responsiveness, technical support and timely delivery with respect to 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 rate 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.

Results of Operations

The table below summarizes the income from operations data for Advanced Circuits for the three- and nine-month periods ended September 30, 2008 and September 30, 2007:

	Three-months ended		Nine-months ended	
(in thousands)	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net sales	$ 14,163	$ 12,965	$ 42,741	$ 39,088
Cost of sales	5,993	5,608	18,161	17,015
Gross profit	8,170	7,357	24,580	22,073
Selling, general and administrative expense	2,750	2,379	8,372	6,317
Fees to manager	125	126	375	378
Amortization of intangibles	665	666	1,965	1,997
Income from operations	$ 4,630	$ 4,186	$ 13,868	$ 13,381

Three months ended September 30, 2008 compared to the three months ended September 30, 2007.

Net sales

Net sales for the three months ended September 30, 2008 increased approximately $1.2 million over the corresponding three month period ended September 30, 2007. The increase in net sales were a result of increased sales in long-lead time PCBs ($0.8 million), quick-turn production ($0.8 million) offset in part by a decrease in subcontract revenue ($0.5 million).

Cost of sales

Cost of sales for the three months ended September 30, 2008 increased approximately $0.4 million. This increase is principally due to the corresponding increase in sales. Gross profit as a percentage of sales increased during the three months ended September 30, 2008 (57.7% at September 30, 2008 vs. 56.7% at September 30, 2007) largely as a result of increased manufacturing efficiencies realized due to increased capacity, offset in part by increases in raw material costs associated with commodity items such as glass, copper and gold.

Selling, general and administrative expense

Selling, general and administrative expense increased $0.4 million during the three months ended September 30, 2008 compared to the same period in 2007 due principally to increases in costs associated with employee retention programs and additional personnel.

Income from operations

Operating income for the three months ended September 30, 2008 was approximately $4.6 million an increase of $0.4 million over 2007 primarily as a result of those factors described above.

Nine months ended September 30, 2008 compared to the nine months ended September 30, 2007.

Net sales

Net sales for the nine months ended September 30, 2008 was approximately $42.7 million compared to approximately $39.1 million for the same period in 2007, an increase of approximately $3.6 million or 9.3%. The increase in net sales was largely due to increased sales in quick-turn production PCBs, and Prototype PCBs which increased by approximately $2.0 million and $0.6 million, respectively, resulting from increased marketing efforts. Quick-turn production PCBs represented approximately 34.3% of gross sales for the nine-months ended September 30, 2008 as compared to approximately 32.9% for the same period in 2007. Prototype PCBs comprised approximately 31.4% of sales for the nine months ended September 30, 2008 compared to approximately 32.8% for the same period in 2007. Assembly sales increased $0.7 million and subcontract revenue decreased approximately $1.8 million in the nine-months ended September 30, 2008 compared to the same period in 2007.

Cost of sales

Cost of sales for the nine months ended September 30, 2008 was approximately $18.2 million compared to approximately $17.0 million for the same period in 2007, an increase of approximately $1.1 million or 6.7%. The increase in cost of sales was largely due to the increase in sales. Gross profit as a percentage of net sales increased by approximately 1.0% to approximately 57.5% for the nine months ended September 30, 2008 as compared to approximately 56.5% for the same period in 2007 largely as a result of increased manufacturing efficiencies realized due to increased capacity, offset in part by increases in raw material costs associated with commodity items such as glass, copper and gold.

Selling, general and administrative expense

Selling, general and administrative expense increased approximately $2.1 million in the nine months ended September 30, 2008 compared to same period in 2007 largely as a result of reversing $1.2 million in liabilities related to management loan forgiveness arrangements in the first quarter of 2007. Not taking into account the 2007 reversal of loan forgiveness costs, selling, general and administrative costs increased approximately $0.9 million during the nine month period ended September 30, 2008 compared to the same period in 2007 due to increased advertising and personnel costs.

Income from operations

Income from operations was approximately $13.9 million for the nine months ended September 30, 2008 compared to approximately $13.4 million at September 30, 2007. The increase was based on the 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.

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 table. 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 income from operations data for American Furniture for the three and nine-month periods ended September 30, 2008 and the pro-forma income from operations for the three and nine-month periods ended September 30, 2007:

	Three-months ended		Nine-months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
(in thousands)		(Pro-forma)		(Pro-forma)
Net sales	$ 31,386	$ 32,640	$ 99,827	$ 121,152
Cost of sales	25,290	25,310	79,026	93,293
Gross profit	6,096	7,330	20,801	27,859
Selling, general and administrative expense	5,011	4,535	13,073	15,501
Fees to manager	125	125	375	375
Amortization of intangibles (a)	733	733	2,200	2,199
Income from operations	$ 227	$ 1,937	$ 5,153	$ 9,784

Prior period results of operations of American Furniture for the three and nine months ended September 30, 2007 include the following pro-forma adjustments:

(a) A reduction in charges to amortization of intangible assets totaling $0.1 million in each of the three and nine month periods as a result of, and derived from, the purchase price allocation in connection with our acquisition of American Furniture in August 2007.

Three months ended September 30, 2008 compared to the pro-forma three months ended September 30, 2007.

Net sales

Net sales for the three months ended September 30, 2008 decreased approximately $1.3 million over the corresponding three months ended September 30, 2007. Stationary product sales decreased approximately $2.1 million due primarily to the continuing impact from the fire that destroyed the finished goods warehouse and most of the manufacturing facilities in February 2008. Motion sales increased by approximately $0.5 million in the quarter ended September 30, 2008 and sales in all other furniture categories were either flat or slightly higher in the 2008 quarter. The softer economy is also responsible, to a lesser extent, for lower sales volume and we expect that trend to continue throughout the current fiscal year and into 2009.

Cost of sales

Cost of sales was approximately $25.3 million in each of the three month periods ended September 30, 2008 and 2007. Gross profit as a percentage of sales was 19.4% in the three months ended September 30, 2008 compared to 22.5% in the corresponding period in 2007. The decrease of 3.1% is attributable to raw material price increases, particularly foam and steel, and to a lesser extent continued labor inefficiencies incurred in the manufacturing recovery process due to multiple production facilities and overtime costs incurred, resulting from the fire in February 2008. Foam and steel prices are starting to decrease and we expect to realize the impact of these lower costs beginning in the first quarter of 2009.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2008 increased approximately $0.5 million. This increase is largely due to larger fuel cost ($0.4 million), legal costs and additional rent ($0.4 million) offset in part by business interruption insurance proceeds recorded during the quarter of approximately $0.3 million.

Income from operations

Income from operations decreased approximately $1.7 million to $0.2 million for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 due principally to the reduction in sales and to other factors as described above.

Nine months ended September 30, 2008 compared to the pro-forma nine months ended September 30, 2007.

Net sales

Net sales for the nine months ended September 30, 2008 decreased $21.3 million from the corresponding nine months ended September 30, 2007. Stationary product sales decreased $16.3 million in the 2008 period and motion and recliner product sales decreased approximately $4.8 million. These decreases in net sales are the result of the continuing impact from the fire that destroyed the finished goods warehouse and most of the manufacturing facilities in February 2008. In addition to the fire, the impact of a softer economy was also responsible for the lower sales volume and we expect it to have a continuing impact throughout the current fiscal year and into 2009.

Cost of sales

Cost of sales decreased approximately $14.3 million in the nine months ended September 30, 2008 compared to the same period of 2007 due principally to the corresponding decrease in sales. Gross profit as a percentage of sales was 20.8% in the nine months ended September 30, 2008 compared to 23.0% in the corresponding period in 2007. The reduction of 2.2% is attributable to raw material price increases during 2008, particularly foam and motion and recliner metal hardware, as well as manufacturing inefficiencies and an increase in overtime costs incurred that were necessary in the fire recovery process. Foam and steel prices are starting to decrease and we expect to realize the impact of these lower costs beginning in the first quarter of 2009.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2008 decreased approximately $2.4 million compared to the same period of 2007. This decrease is primarily due to the business interruption proceeds recorded during the period of approximately $3.1 million. Also contributing to the decrease was a reduction of $0.4 million in commissions paid and $0.4 million in insurance expense during the period due to the significant reduction in net sales caused by the fire. These decreases were offset in part by increases in fuel costs of $0.8 million, legal costs totaling $0.3 million and increased property taxes and rent of $0.3 million during the nine months ended September 30, 2008 compared to 2007.

Income from operations

Income from operations decreased approximately $4.6 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 primarily due to the decrease in net sales offset in part by the expected insurance proceeds recognized, as described above.

Anodyne

Overview

Anodyne, a specialty designer, manufacturer and distributor of medical devices, specifically patient support surfaces, was formed in February 2006 to purchase the assets and operations of AMF Support Surfaces, Inc ("AMF") and SenTech Medical Systems, Inc. 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 support surfaces industry is fragmented and comprised of many small participants and niche manufacturers . Anodyne's consolidation platform marks the first opportunity 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.

Results of Operations

The table below summarizes the income from operations data for Anodyne for the three- and nine-month periods ended September 30, 2008 and September 30, 2007.

	Three-months ended		Nine-months ended	
(in thousands)	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net sales	$ 16,510	$ 11,011	$ 40,954	$ 29,524
Cost of sales	12,650	7,839	30,573	21,773
Gross profit	3,860	3,172	10,381	7,751
Selling, general and administrative expense	1,670	1,592	5,718	4,710
Fees to manager	87	87	263	261
Amortization of intangibles	370	379	1,112	967
Income from operations	$ 1,733	$ 1,114	$ 3,288	$ 1,813

***Three months ended September 30, 2008 compared to the three months ended September 30, 2007*.**

Net sales

Net sales for the three months ended September 30, 2008 increased approximately $5.5 million over the corresponding three months ended September 30, 2007. Approximately $3.1 million of this increase is attributable to new product roll-outs with the remaining increase due principally to increased sales of existing products to new and existing customers.

Cost of sales

Cost of sales increased approximately $4.8 million in the three months ended September 30, 2008 compared to the same period of 2007 and is principally due to the corresponding increase in sales. Gross profit as a percentage of sales was 23.4% in the three months ended September 30, 2008 compared to 28.8% in the corresponding period in 2007. The decrease of 5.4% is principally due to higher raw material costs and an unfavorable sales mix. Foam, a major raw material item used in the manufacturing process, is indirectly impacted by petroleum prices and other costs, which have increased over the past year. Recently petroleum prices have decreased which may have an impact on the price of our raw materials in the future.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2008, increased approximately $0.1 million. 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.

Income from operations

Income from operations increased approximately $0.6 million to $1.7 million for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 due primarily to those factors described above.

Nine months ended September 30, 2008 compared to the nine months ended September 30, 2007.

Net sales

Net sales for the nine months ended September 30, 2008 were $41.0 million compared to $29.5 million for the same period in 2007, an increase of $11.4 million or 38.7%. Sales associated with PrimaTech, which was purchased in June 2007, accounted for approximately $2.0 million of this increase. Approximately $3.5 million of the remaining sales increase can be attributed equally to new product sales rollout with the balance ($6.0 million) coming from existing product sales to existing customers and new customers.

Cost of sales

Cost of sales increased approximately $8.8 million for the nine months ended September 30, 2008 compared to the same period in 2007 and is principally due to a corresponding increase in sales and manufacturing infrastructure costs. Gross profit as a percentage of sales decreased to 25.3% in 2008 from 26.3% in 2007 due principally to higher raw material costs and the occurrence of manufacturing infrastructure costs.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2008 increased $1.0 million compared to the same period in 2007. This increase is largely the result of increases in administrative staff and associated costs necessary to support the increase in sales, new product development and legal fees.

Amortization of intangibles

Amortization expense increased approximately $0.1 million in the nine months ended September 30, 2008 compared to the corresponding period in 2007, due principally to the effect of amortization expense resulting from the acquisition of PrimaTech in June 2007.

Income from operations

Income from operations increased approximately $1.5 million to $3.3 million for the nine months ended September 30, 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.

CBS Personnel

Overview

CBS Personnel, a provider of temporary staffing services in the United States, provides a wide range of human resources services, including temporary staffing services, employee leasing services, and permanent staffing and temporary-to-permanent placement services. CBS Personnel serves over 6,500 corporate and small business clients and during an average week places over 45,000 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 into new markets through acquisition. In keeping with these strategies, effective January 21, 2008, CBS Personnel acquired all of the ongoing equity interests of 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.

Results of Operations

The table below summarizes the pro-forma income from operations data for CBS Personnel for the three- and nine-month periods ended September 30, 2008 and September 30, 2007 as if Staffmark was acquired on January 1, 2007.

	Three-months ended		Nine-months ended	
		-(Pro-forma)-		-(Pro-forma)-
(in thousands)	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Service revenues	$ 265,645	$ 290,086	$ 802,881	$ 856,122
Cost of services	221,296	238,316	667,845	706,197
Gross profit	44,349	51,770	135,036	149,925
Selling, general and administrative expense	37,838	39,934	119,956	122,404
Fees to manager	443	490	1,350	1,430
Amortization of intangibles	1,289	1,289	3,866	3,866
Income from operations	$ 4,779	$ 10,057	$ 9,864	$ 22,225

***Three months ended September 30, 2008 compared to pro-forma three months ended September 30, 2007*.**

Service revenues

Revenues for the three months ended September 30, 2008 decreased approximately $24.4 million or 8.4% over the corresponding three months ended September 30, 2007. The reduction, which is greater than that experienced in the first and second quarters of 2008, is primarily the result of reduced demands for staffing services (primarily clerical and light industrial) as clients were affected by weaker economic conditions. We expect this trend to continue through fiscal 2008 as the economy continues to soften. In addition, Hurricane Ike and Hurricane Gustav affected many clients, curtailing their operations, resulting in an estimated $0.8 million negative effect on revenues.

Cost of services

Direct cost of services for the three months ended September 30, 2008 decreased approximately $17.0 million from the same period a year ago. Cost of services declined approximately 7.1%, primarily as a result of reduced demand for staffing services. Gross margin was approximately 16.7% and 17.8% of revenues for the three-month periods ended September 30, 2008 and 2007, respectively. The decrease is primarily a result of reduced margins due to competitive pressures in the market place due to current economic conditions and lower permanent placements.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2008 is approximately $2.1 million lower than the same period a year ago. This decrease is primarily attributable to successful efforts to control costs and achievment of planned synergies related to the integration of Staffmark. Additionally, CBS incurred approximately $1.4 million in transition and integration expenses during the three months ended September 30, 2008 related to the integration of Staffmark which partially offset these decreases. We expect to complete the integration process during the first half of fiscal 2009.

Income from operations

Income from operations decreased approximately $5.3 million to approximately $4.8 million for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 due principally to the decrease in sales and other factors as described above.

Pro-forma nine months ended September 30, 2008 compared to the pro-forma nine months ended September 30, 2007.

Service revenues

Revenues for the nine months ended September 30, 2008 decreased approximately $53.2 million or 6.2% over the corresponding nine months ended September 30, 2007. The reduction reflects reduced demands for staffing services (primarily clerical and light industrial) as clients were affected by weaker economic conditions. We expect this trend to continue through fiscal 2008 and beyond.

Cost of services

Direct cost of services for the nine months ended September 30, 2008 decreased approximately $38.4 million from the same period a year ago. Gross margin was approximately 16.8% and 17.5% of revenues for the nine-month periods ended September 30, 2008 and September 30, 2007, respectively. The decrease is primarily a result of reduced margins due to competitive pressures in the market place due to current economic conditions and lower permanent placements.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2008 decreased approximately $2.4 million from the same period a year ago. This decrease is primarily attributable to successful efforts to control costs and achievment of planned synergies related to the integration of Staffmark Additionally, CBS incurred approximately $4.8 million in transition and integration expenses during the nine months ended September 30, 2008 related to costs associated with the integration of Staffmark which offset these decreases in part. We expect to incur total transition and integration expenses of $7.0 million to $9.0 million and we believe these costs will be offset by related cost savings derived from the combined entities going forward.

Income from operations

Income from operations decreased approximately $12.4 million to approximately $9.9 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 due principally to the decrease in sales and other factors described above.

Fox Factory

Overview

Founded in 1974 and 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 aftermarket products to retailers and distributors. Fox's products are recognized as the industry's performance leaders by retailers and end-users alike.

Results of Operations

The table below summarizes the income from operations data for Fox Factory for the three- and nine-month periods ended September 30, 2008 and the pro-forma income from operations for the three and nine-month periods ended September 30, 2007.

	Three-months ended		Nine-months ended	
(in thousands)	September 30, 2008	September 30, 2007 (Pro-forma)	September 30, 2008	September 30, 2007 (Pro-forma)
Net sales	$ 43,326	$ 33,076	$ 101,178	$ 75,733
Cost of sales (a)	30,631	24,745	73,468	57,997
Gross profit	12,695	8,331	27,710	17,736
Selling, general and administrative expense (b)	4,853	4,030	13,768	10,438
Fees to manager (c)	125	125	371	375
Amortization of intangibles (d)	1,304	1,304	4,196	4,194
Income from operations	$ 6,413	$ 2,872	$ 9,375	$ 2,729

Prior period results of operations of Fox for the three and nine months ended September 30, 2007 include the following pro-forma adjustments:

(a) An increase in cost of sales totaling $0.1 million and $0.3 million in the three- and nine-month periods, respectively, 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 $0.02 million and $0.1 million in the three- and nine-month periods, respectively, 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 manager fees totaling $0.1 million and $0.4 million in the three- and nine-month periods, respectively, 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 $1.3 million and $4.2 million in the three- and nine-month periods, respectively, reflecting amortization expense as a result of, and derived from, the purchase price allocation in connection with our acquisition of Fox in January 2008.

***Three months ended September 30, 2008 compared to the pro-forma three months ended September 30, 2007*.**

Net sales

Net sales for the three months ended September 30, 2008 increased $10.3 million or 31.0% over the corresponding three- month period ended September 30, 2007. Sales growth was driven by sales to bicycle and power sports original equipment manufacturers, which increased by approximately $7.8 million, the remaining sales increase is principally attributable to increases in after market sales and service revenue.

Cost of sales

Cost of sales for the three months ended September 30, 2008 increased approximately $5.9 million or 23.8% 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 as well as increased costs of raw materials. Gross profit as a percentage of sales increased during the three months ended September 30, 2008 (29.3% at September 30, 2008 vs. 25.2% at September 30, 2007) as improved efficiencies associated with the increase in sales offset increased raw material costs.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2008 increased $0.8 million over the corresponding three- month period in 2007. This increase is principally the result of increases in personnel costs in administrative, engineering and sales departments and marketing costs necessary to drive the increase in sales.

Income from operations

Income from operations for the three months ended September 30, 2008 increased approximately $3.5 million over the corresponding pro-forma period in 2007 based principally on those factors described above.

***Nine months ended September 30, 2008 compared to the pro-forma nine months ended September 30, 2007*.**

Net sales

Sales for the nine months ended September 30, 2008 increased $25.4 million or 33.6% over the corresponding nine month period ended September 30, 2007. Sales growth was driven by sales to bicycle and power sports original equipment manufacturers, which increased by approximately $20.8 million, as well as increases in after market sales and service revenue. The sales increase was due in large part to well received new model year products, strong international sales and to a lesser extent the impact of a temporary plant shutdown during the first quarter of 2007.

Cost of sales

Cost of sales for the nine months ended September 30, 2008 increased approximately $15.5 million or 26.7% 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 during the nine months ended September 30, 2008 (27.4% at September 30, 2008 vs. 23.4% at September 30, 2007) largely due to improved efficiencies associated with the increase in sales partially offset by increased raw material costs.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2008 increased $3.3 million over the corresponding nine month period in 2007. This increase is principally the result of increases in personnel costs in administrative, engineering and sales departments and marketing costs necessary to drive the increase in sales.

Income from operations

Income from operations for the nine months ended September 30, 2008 increased approximately $6.6 million over the corresponding period in 2007 based principally on those factors described above.

Halo

Overview

Operating under the brand names of HALO and Lee Wayne, headquartered in Sterling, Illinois, 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 90% 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 1,000 account executives.

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 income from operations data for HALO for the three month and nine-month periods ended September 30, 2008 and the income from operations for the three-month and the pro-forma income from operations for the nine-month periods ended September 30, 2007:

	Three-months ended		Nine-months ended	
(in thousands)	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007 (Pro-forma)
Net sales	$ 42,571	$ 36,607	$ 107,138	$ 92,460
Cost of sales	26,751	22,628	67,416	57,951
Gross profit	15,820	13,979	39,722	34,509
Selling, general and administrative expense	13,799	11,452	36,562	31,354
Fees to manager (a)	125	126	375	375
Amortization of intangibles (b)	611	547	1,746	1,588
Income from operations	$ 1,285	$ 1,854	$ 1,039	$ 1,192

Prior period results of operations of HALO for the nine months ended September 30, 2007 includes the following pro-forma adjustments:

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

(b) 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.

Three-months ended September 30, 2008 compared to the three-months ended September 30, 2007.

Net sales

Net sales for the three months ended September 30, 2008 increased approximately $6.0 million over the corresponding three months ended September 30, 2007. Sales increases due to acquisitions made since September 30, 2007 accounted for approximately $7.8 million of this increase offset in part by a decrease in sales to existing customers of $1.8 million due largely to the impact of a softening economy.

Cost of sales

Cost of sales for the three months ended September 30, 2008 increased approximately $4.1 million. 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 37.2% and 38.2% of net sales for the three-month periods ended September 30, 2008 and September 30, 2007, respectively. The decrease in gross profit as a percent of sales is attributable to an unfavorable sales mix during the quarter ended September 30, 2008.

Selling, general and administrative expense

Selling, general and administrative expense for the three months ended September 30, 2008, increased approximately $2.3 million. This increase is largely the result of increased direct commission expense as a result of increased sales and added selling, general and administrative expenses as a result of acquisitions. Approximately $0.2 million of integration costs were incurred related to an acquisition completed in April 2008.

Amortization of intangibles

Amortization expense increased approximately $0.1 million in the three months ended September 30, 2008. This increase is due to the amortization expense of intangible assets recorded as part of HALO’s acquisitions in 2007 and 2008.

Income from operations

Income from operations decreased $0.6 million in the three months ended September 30, 2008 compared to the three months ended September 30, 2007 based on the factors described above.

Nine months ended September 30, 2008 compared to the pro-forma nine months ended September 30, 2007.

Net sales

Net sales for the nine months ended September 30, 2008 increased approximately $14.7 million over the corresponding period in 2007. Sales increases to accounts from acquisitions made in January 2007, April 2007 and April 2008 accounted for approximately $15.4 million of this increase offset in part by a decrease in sales to existing customers.

Cost of sales

Cost of sales for the nine months ended September 30, 2008 increased approximately $9.5 million. 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 37.0% and 37.3% of net sales for the nine month periods ended September 30, 2008 and 2007, respectively. The decrease in gross profit as a percent in sales is not the result of any one factor and is spread across all product lines.

Selling, general and administrative expense

Selling, general and administrative expense for the nine months ended September 30, 2008, increased approximately $5.2 million compared to the same period in 2007. This increase is largely the result of increased direct commission expense as a result of increased sales in 2008 and increased general and administrative expense in the nine months ended September 30, 2008 as a result of acquisitions consummated in 2007 and 2008. Approximately $0.6 million of integration costs were incurred related to an acquisition completed in April 2008.

Amortization of intangibles

Amortization expense increased approximately $0.2 million in the nine months ended September 30, 2008. This increase is due to additional amortization costs in 2008 as a result of add-on acquisitions.

Income from operations

Income from operations was approximately $1.0 million and $1.2 million for the nine months ended September 30, 2008 and 2007, respectively, based principally on those factors described above.

Liquidity and Capital Resources

For the nine-months ended September 30, 2008, on a consolidated basis, cash flows provided by operating activities totaled approximately $25.9 million, which represents a $4.3 million increase over the nine-month period ended September 30, 2007.

Cash flows used in investing activities totaled approximately $29.0 million, which reflects the costs to acquire Fox and Staffmark of approximately $166.3 million, other tuck-in acquisitions totaling approximately $7.9 million and capital expenditures of approximately $8.6 million offset in part by the proceeds from the sale of Aeroglide and Silvue of approximately $153.4 million.

Cash flows used in financing activities totaled approximately $26.4 million, principally reflecting: (i) distributions paid to shareholders during the quarter totaling approximately $30.7 million and (ii) scheduled amortization of our Term Loan Facility of $1.5 million, offset in part by a $5.0 million increase in our Term Loan Facility in January 2008.

At September 30, 2008 we had approximately $89.7 million of cash and cash equivalents on hand. The majority of our cash is invested in short-term U.S. government securities and corporate debt securities and is maintained in accordance with the Company's investment policy, which identifies allowable investments and specifies credit quality standards. The primary objective of our investment activities is the preservation of principal while maximizing interest income and minimizing risk. We do not hold any investments for trading purposes.

We had the following outstanding loans due from each of our businesses:

- Advanced Circuits — approximately $63.5 million;
- American Furniture — approximately $68.2 million;
- Anodyne — approximately $20.9 million;
- CBS Personnel — approximately $123.0 million;
- Fox Factory — approximately $53.1 million; and
- HALO — approximately $53.2 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. CBS Personnel borrowed approximately $83.6 million in January 2008 to fund its acquisition of Staffmark.

Our primary source of cash is from the receipt of interest and principal on our outstanding loans to our businesses. Accordingly, we are dependent upon the earnings of and cash flow of these businesses, which are available for (i) operating expenses; (ii) payment of principal and interest under our 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 $5.9 million was recorded during the nine-months ended September 30, 2008 in order to recognize our estimated, potential liability in connection with the Supplemental Put Agreement between us and CGM. Approximately $7.9 million of the accrued profit allocation was paid in the first quarter of fiscal 2007 in connection with the sale of Crosman and we paid approximately $15.0 million of the accrued profit allocation in August 2008 in connection with the sales of Aeroglide and Silvue. A non-current liability of approximately $12.9 million is reflected in our condensed consolidated balance sheet, which represents our estimated liability for this obligation at September 30, 2008.

We believe that we currently have sufficient liquidity and resources to meet our existing obligations, including anticipated distributions to our shareholders over the next twelve months. We increased the cash distribution for the quarter ended September 30, 2008 from $0.3125 per share to 0.34 per share. We have considered the impact of recent market instability and credit availability in assessing the adequacy of our liquidity and capital resources.

At September 30, 2008 we had $153.5 million outstanding under the Term Loan Facility of our Credit Agreement. The Credit Agreement provides for a Revolving Credit Facility totaling $325 million which matures in December 2012 and a Term Loan Facility totaling $153.5 million, which matures in December 2013. At September 30, 2008 we had no outstanding borrowings under the Revolving Credit Facility portion of our Credit Agreement. The Term Loan Facility requires quarterly payments of $0.5 million which commenced March 31, 2008, with a final payment of the outstanding principal balance due on December 7, 2013. The Credit Agreement permits the Company to increase, over the next two years, the amount available under the Revolving Credit Facility by up to $25 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 Offered 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. We had approximately $284.9 million in borrowing base availability under this facility at September 30, 2008. Letters of Credit totaling $64.0 million were outstanding at September 30, 2008. We currently have no exposure to failed financial institutions.

The Company increased its Revolving Credit Facility to $340 million on August 4, 2008. The Company had no outstanding borrowings under its Revolving Credit Facility at September 30, 2008. We do not expect to borrow against the Revolving Credit Facility in the foreseeable future. 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 LIBOR, for the relevant period plus a margin of 4.0%.

In November 2007 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.

On January 22, 2008 we entered into a three-year interest rate swap agreement with a bank, 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 Facility Debt to a fixed- rate basis for a period of three years.

We intend to use the availability under our Credit Agreement and cash on hand to pursue acquisitions of additional businesses to the extent permitted under our Credit Agreement, to fund distributions and to provide for other 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 and reinvestment ("CAD"). CAD is a non-GAAP measure that we believe provides additional information to evaluate our ability to make anticipated quarterly distributions. It is not necessarily comparable with similar measures provided by other entities. We believe that CAD and cash available from our businesses (net of reserves) will be sufficient to meet our anticipated distributions over the next twelve months. The table below reconciles CAD to net income and to cash flow provided by operating activities, which we consider to be the most directly comparable financial measure calculated and presented in accordance with GAAP.

(in thousands)	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Net income	$ 77,066	$ 43,808
Adjustment to reconcile net income to cash provided by operating activities:		
Gain on sale of businesses	(72,932)	(36,038)
Depreciation and amortization	26,580	17,988
Supplemental put expense	5,829	4,591
Stockholder charges	1,943	589
Minority interest	2,844	869
Deferred taxes	(7,010)	(2,373)
Amortization of debt issuance costs	1,445	857
Other	296	(364)
Changes in operating assets and liabilities	(10,205)	(8,359)
Net cash provided by operating activities	25,856	21,568
Add (deduct):		
Unused fee on revolving credit facility (1)	2,255	1,915
Staffmark integration and restructuring	6,476	—
Changes in operating assets and liabilities	10,205	8,359
Less:		
Maintenance capital expenditures: (2)		
Advanced Circuits	1,002	341
Aeroglide	210	304
American Furniture	173	23
Anodyne	1,220	694
CBS Personnel	1,196	1,383
Fox	1,185	—
Halo	410	124
Silvue	—	387
Estimated cash flow available for distribution	$ 39,396	$ 28,586
Distribution paid — April of 2008 and 2007	$ 10,246	$ 6,135
Distribution paid — July of 2008 and 2007	10,246	9,458
Distribution paid — October of 2008 and 2007	10,719	10,246
	$ 31,211	$ 25,839

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

(2) Represents maintenance capital expenditures that were funded from operating cash flow and excludes approximately $3.2 million of growth capital expenditures for the nine months ended September 30, 2008. The 2008 growth capital expenditures consist of $1.6 million for the new Silvue Corporate office facility and $1.6 million related to Staffmark.

Cash flows of certain of our businesses are seasonal in nature. Cash flows from CBS Personnel are typically lower in the first quarter of each year than in other quarters due to: (i) reduced seasonal demand for temporary staffing services and (ii) lower gross margins earned during that period due to the front-end loading of certain payroll taxes and other costs 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.

Contractual Obligations and Off-Balance Sheet Arrangements

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

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

The table below summarizes the payment schedule of our contractual obligations at September 30, 2008:

(in thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations (a)	$ 238,348	$ 18,072	$ 36,060	$ 32,887	$ 151,329
Capital Lease Obligations	464	162	302	—	—
Operating Lease Obligations (b)	56,492	14,352	19,427	9,166	13,547
Purchase Obligations (c)	150,378	82,345	37,416	30,617	—
Supplemental Put Obligation (d)	12,858	—	—	—	—
	$ 458,540	$ 114,931	$ 93,205	$ 72,670	$ 164,876

(a) Reflects commitment fees and letter of credit fees under our Revolving Credit Facility and amounts due, together with interest on our Term Loan Facility.

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

(c) Reflects non-cancelable commitments as of September 30, 2008, including: (i) shareholder distributions of $42.9 million, (ii) management fees of $15.3 million per year over the next five years and, (iii) other obligations, including amounts due under employment agreements.

(d) 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, included as a component of long-term liabilities, which does not provide for annual estimated payments beyond one year.

Critical Accounting Estimates

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

Our critical accounting estimates have not changed materially from those disclosed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, for the year ended December 31, 2007 as filed with the SEC.

Recent Accounting Pronouncements

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, 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.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* . The purpose of this statement is to improve financial reporting by providing a consistent framework for determining applicable accounting principles to be used in the preparation of financial statements presented in conformity with accounting principles generally accepted in the United States of America. SFAS No. 162 will become effective 60 days after the SEC’s approval. We believe that the adoption of this standard on its effective date will not have a material effect on our consolidated financial statements.

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* ” 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 3. — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk required by this item are incorporated by reference to Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2007 and have not materially changed since that report was filed.

ITEM 4. — CONTROLS AND PROCEDURES

As required by Exchange Act Rule 13a-15(b), the Holding's Regular Trustees and the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, conducted an evaluation of the effectiveness of Holdings' and the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2008. Based on that evaluation, the Regular Trustees of Holdings' and the Chief Executive Officer and Chief Financial Officer of the Company concluded that Holdings' and the Company's disclosure controls and procedures were effective as of September 30, 2008.

In connection with the evaluation required by Exchange Act Rule 13a-15(d), Holding's Regular Trustees and the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, concluded that no changes in Holdings' or the Company's internal control over financial reporting occurred during the third quarter of 2008 that have materially affected, or are reasonably likely to materially affect, Holdings' and the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Legal proceedings associated with the Company’s and Holdings’ business together with legal proceedings for the initial businesses have not changed materially from those disclosed in Part I, Item 3 of our 2007 Annual Report on Form 10-K as filed with the SEC on March 14, 2008.

ITEM 1A. RISK FACTORS

Risk factors and uncertainties associated with the Company’s and Holdings’ business have not changed materially from those disclosed in Part I, Item 1A of our 2007 Annual Report on Form 10-K as filed with the SEC on March 14, 2008 and in Part II, Item 1A of our Quarterly Report on Form 10-Q, for the period ended June 30, 2008.

ITEM 6. *Exhibits*

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant

SIGNATURES

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

COMPASS DIVERSIFIED HOLDINGS

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

Date: November 10, 2008

SIGNATURES

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

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

By: /s/ James J. Bottiglieri
James J. Bottiglieri
Chief Financial Officer (Principal Financial and Accounting Officer)

Date: November 10, 2008

EXHIBIT INDEX

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Registrant
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Registrant
32.1	Section 1350 Certification of Chief Executive Officer of Registrant
32.2	Section 1350 Certification of Chief Financial Officer of Registrant

Exhibit 31.1

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

I, I. Joseph Massoud, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 10, 2008

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

Exhibit 31.2

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

I, James J. Bottiglieri, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 10, 2008

/s/ James J. Bottiglieri
James J. Bottiglieri
Regular Trustee of Compass Diversified Holdings and
Chief Financial Officer of Compass Group Diversified
Holdings LLC
(Principal financial and accounting officer*)*

Exhibit 32.1

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

In connection with the Quarterly Report of COMPASS GROUP DIVERSIFIED HOLDINGS LLC on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, I. Joseph Massoud, Chief Executive Officer of Compass Group Diversified Holdings LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Dated: November 10, 2008

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

The foregoing certification is being furnished to accompany Compass Group Diversified Holdings LLC’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008 (the “Report”) solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of Compass Group Diversified Holdings LLC that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to Compass Group Diversified Holdings LLC and will be retained by Compass Group Diversified Holdings LLC and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

In connection with the Quarterly Report of COMPASS DIVERSIFIED HOLDINGS and COMPASS GROUP DIVERSIFIED HOLDINGS LLC on Form 10-Q for the period ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James J. Bottiglieri, Regular Trustee of Compass Diversified Holdings and Chief Financial Officer of Compass Group Diversified Holdings LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Dated: November 10, 2008

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

The foregoing certification is being furnished to accompany Compass Diversified Holdings' and Compass Group Diversified Holdings LLC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008 (the "Report") solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed as part of the Report or as a separate disclosure document and shall not be deemed incorporated by reference into any other filing of Compass Diversified Holdings and Compass Group Diversified Holdings that incorporates the Report by reference. A signed original of this written certification required by Section 906 has been provided to Compass Diversified Holdings and Compass Group Diversified Holdings LLC and will be retained by Compass Diversified Holdings and Compass Group Diversified Holdings LLC and furnished to the Securities and Exchange Commission or its staff upon request.