Compass Diversified Holdings
Form 10-Q
May 03, 2017

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

Form 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

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

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

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

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

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	¨
		Emerging growth company	¨

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

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

As of May 1, 2017, there were 59,900,000 shares of Compass Diversified Holdings outstanding.

COMPASS DIVERSIFIED HOLDINGS
QUARTERLY REPORT ON FORM 10-Q
For the period ended March 31, 2017
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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," "operating segments," "subsidiaries" and "reporting units" 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 "Trust Agreement" refer to the Second Amended and Restated Trust Agreement of the Trust dated as of December 6, 2016;
- the "2011 Credit Facility" refer to a credit agreement (as amended) with a group of lenders led by Toronto Dominion (Texas) LLC, as agent, which provided for the 2011 Revolving Credit Facility and the 2011 Term Loan Facility;
- the "2014 Credit Facility" refer to the credit agreement, as amended from time to time, entered into on June 6, 2014 with a group of lenders led by Bank of America N.A. as administrative agent, which provides for a Revolving Credit Facility and a Term Loan;
- the "2014 Revolving Credit Facility" refer to the $550 million Revolving Credit Facility provided by the 2014 Credit Facility that matures in June 2019;
- the "2014 Term Loan" refer to the $325 million Term Loan Facility, provided by the 2014 Credit Facility that matures in June 2021;
- the "2016 Incremental Term Loan" refer to the $250 million Tranche B Term Facility provided by the 2014 Credit Facility (together with the 2014 Term Loan, the "Term Loans");
- the "LLC Agreement" refer to the fifth amended and restated operating agreement of the Company dated as of December 6, 2016; and
- "we," "us" and "our" refer to the Trust, the Company and the businesses together.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, contains both historical and forward-looking statements. We may, in some cases, use words such as "project," "predict," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "potentially," 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 future acquisitions;
- our ability to remove CGM and CGM's right to resign;
- our organizational structure, which may limit our ability to meet our dividend and distribution policy;
- our ability to service and comply with the terms of our indebtedness;
- our cash flow available for distribution and reinvestment and our ability to make distributions in the future to our shareholders;
- our ability to pay the management fee and profit allocation if and when due;
- our ability to make and finance future acquisitions;
- our ability to implement our acquisition and management strategies;
- the regulatory environment in which our businesses operate;
- trends in the industries in which our businesses operate;
- changes in general economic or business conditions or economic or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;
- environmental risks affecting the business or operations of our businesses;
- our and CGM's ability to retain or replace qualified employees of our businesses and CGM;
- costs and effects of legal and administrative proceedings, settlements, investigations and claims; and
- extraordinary or force majeure events affecting the business or operations of our businesses.

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

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

PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Compass Diversified Holdings
Condensed Consolidated Balance Sheets

(in thousands)	March 31, 2017 (unaudited)			December 31, 2016		
Assets						
Current assets:						
Cash and cash equivalents	$	115,281		$	39,772	
Accounts receivable, net	172,885			181,191		
Inventories	208,326			212,984		
Prepaid expenses and other current assets	18,234			18,872		
Total current assets	514,726			452,819		
Property, plant and equipment, net	143,172			142,370		
Investment in FOX (refer to Note F)	—			141,767		
Goodwill	489,877			491,637		
Intangible assets, net	529,579			539,211		
Other non-current assets	9,153			9,351		
Total assets	$	1,686,507		$	1,777,155	
Liabilities and stockholders' equity						
Current liabilities:						
Accounts payable	$	59,273		$	61,512	
Accrued expenses	88,292			91,041		
Due to related party	542			20,848		
Current portion, long-term debt	5,685			5,685		
Other current liabilities	13,013			23,435		
Total current liabilities	166,805			202,521		
Deferred income taxes	103,232			110,838		
Long-term debt	545,536			551,652		
Other non-current liabilities	16,500			17,600		
Total liabilities	832,073			882,611		
Stockholders' equity						
Trust common shares, no par value, 500,000 authorized; 59,900 shares issued and outstanding at March 31, 2017 and December 31, 2016	924,680			924,680		
	(8,428		)	(9,515		)

Accumulated other comprehensive loss				
Accumulated deficit	(101,929	)	(58,760	)
Total stockholders' equity attributable to Holdings	814,323		856,405	
Noncontrolling interest	40,111		38,139	
Total stockholders' equity	854,434		894,544	
Total liabilities and stockholders' equity	$ 1,686,507		$ 1,777,155	

See notes to condensed consolidated financial statements.

Compass Diversified Holdings
Condensed Consolidated Statements of Operations
(unaudited)

	Three months ended March 31,	
	2017	2016
(in thousands, except per share data)		
Net sales	$242,716	$155,001
Service revenues	47,276	38,286
Total net revenues	289,992	193,287
Cost of sales	160,318	99,617
Cost of service revenues	35,341	29,551
Gross profit	94,333	64,119
Operating expenses:		
Selling, general and administrative expense	78,723	42,287
Management fees	7,848	6,371
Amortization expense	10,310	7,380
Impairment expense	8,864	—
Operating income (loss)	(11,412)	8,081
Other income (expense):		
Interest expense, net	(7,136)	(11,462)
Amortization of debt issuance costs	(933)	(570)
Loss on investment in FOX	(5,620)	(10,623)
Other income (expense), net	(22)	3,256
Loss from continuing operations before income taxes	(25,123)	(11,318)
(Benefit) provision for income taxes	(3,648)	3,296
Loss from continuing operations	(21,475)	(14,614)
Loss from discontinued operations, net of income tax	—	(413)
Gain on sale of discontinued operations, net of income tax	340	—
Net loss	(21,135)	(15,027)
Less: Net income attributable to noncontrolling interest	470	1,137
Less: Net loss from discontinued operations attributable to noncontrolling interest	—	(141)
Net loss attributable to Holdings	$(21,605)	$(16,023)
Amounts attributable to Holdings		
Loss from continuing operations	(21,945)	(15,751)
Loss from discontinued operations, net of income tax	—	(272)
Gain on sale of discontinued operations, net of income tax	340	—
Net loss attributable to Holdings	$(21,605)	$(16,023)
Basic and fully diluted income (loss) per share attributable to Holdings (refer to Note L)		
Continuing operations	$(0.61)	$(0.31)
Discontinued operations	0.01	—
	$(0.60)	$(0.31)
Weighted average number of shares of trust stock outstanding – basic and fully diluted	59,900	54,300
Cash distributions declared per share (refer to Note L)	$0.36	$0.36

See notes to condensed consolidated financial statements.

Compass Diversified Holdings
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

	Three months ended March 31,	
	2017	2016
(in thousands)		
Net loss	$(21,135)	$(15,027)
Other comprehensive income (loss)		
Foreign currency translation adjustments	1,031	5,220
Pension benefit liability, net	56	(523)
Other comprehensive income (loss)	1,087	4,697
Total comprehensive loss, net of tax	(20,048)	(10,330)
Less: Net income attributable to noncontrolling interests	470	996
Less: Other comprehensive income attributable to noncontrolling interests	185	1,226
Total comprehensive loss attributable to Holdings, net of tax	$(20,703)	$(12,552)

See notes to condensed consolidated financial statements.

Compass Diversified Holdings
Condensed Consolidated Statement of Stockholders’ Equity
(unaudited)

(in thousands)	Number of Shares	Amount	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity Attributable to Holdings	Non-Controlling Interest	Total Stockholders’ Equity
Balance — January 1, 2017	59,900	$924,680	$(58,760)	$(9,515)	$856,405	$38,139	$894,544
Net loss	—	—	(21,605)	—	(21,605)	470	(21,135)
Total comprehensive income, net	—	—	—	1,087	1,087	—	1,087
Option activity attributable to noncontrolling shareholders	—	—	—	—	—	1,452	1,452
Effect of issuance of subsidiary stock	—	—	—	—	—	50	50
Distributions paid	—	—	(21,564)	—	(21,564)	—	(21,564)
Balance — March 31, 2017	59,900	$924,680	$(101,929)	$(8,428)	$814,323	$40,111	$854,434

See notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
(in thousands)	2017	2016
Cash flows from operating activities:		
Net loss	$(21,135)	$(15,027)
Loss from discontinued operations	—	(413)
Gain on sale of discontinued operations, net	340	—
Net loss from continuing operations	(21,475)	(14,614)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation expense	8,046	5,668
Amortization expense	23,349	8,620
Impairment expense	8,864	—
Amortization of debt issuance costs and original issue discount	1,199	738
Unrealized (gain) loss on interest rate swap	(229)	7,228
Noncontrolling stockholder stock based compensation	1,452	1,188
Loss on investment in FOX	5,620	10,623
Provision for loss on receivables	3,318	130
Deferred taxes	(7,634)	(74)
Other	318	(266)
Changes in operating assets and liabilities, net of acquisition:		
Decrease in accounts receivable	5,710	4,037
Increase in inventories	(8,076)	(1,473)
Increase in prepaid expenses and other current assets	(967)	(299)
Decrease in accounts payable and accrued expenses	(20,909)	(15,996)
Net cash (used in) provided by operating activities - continuing operations	(1,414)	5,510
Net cash provided by operating activities - discontinued operations	—	515
Cash (used in) provided by operating activities	(1,414)	6,025
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(6,721)	(35,553)
Purchases of property and equipment	(8,693)	(4,195)
Net proceeds from sale of equity investment	136,147	47,685
Payment of interest rate swap	(1,089)	(500)
Purchase of noncontrolling interest	—	(1,475)
Proceeds from sale of business	340	182
Other investing activities	31	(86)
Net cash provided by investing activities - continuing operations	120,015	6,058
Net cash used in investing activities - discontinued operations	—	(211)
Cash provided by investing activities	120,015	5,847

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

	Three months ended March 31,	
(in thousands)	2017	2016
Cash flows from financing activities:		
Borrowings under credit facility	51,500	—
Repayments under credit facility	(57,321)	(813)
Distributions paid	(21,564)	(19,548)
Net proceeds provided by noncontrolling shareholders	40	3,755
Distributions paid to noncontrolling shareholders	—	(5,253)
Distributions paid to allocation interest holders (refer to Note L)	(13,354)	—
Debt issuance costs	(1,414)	—
Other	(783)	(282)
Net cash used in financing activities	(42,896)	(22,141)
Foreign currency impact on cash	(196)	(3,033)
Net increase (decrease) in cash and cash equivalents	75,509	(13,302)
Cash and cash equivalents — beginning of period[1]	39,772	85,869
Cash and cash equivalents — end of period[2]	$115,281	$72,567

[1] Includes cash from discontinued operations of $0.6 million at January 1, 2016.
[2] Tridien had no cash balance as of March 31, 2016.

See notes to condensed consolidated financial statements.

Compass Diversified Holdings
Notes to Condensed Consolidated Financial Statements (unaudited)
March 31, 2017

Note A — Organization and Business Operations

Compass Diversified Holdings, a Delaware statutory trust (the "Trust" or "Holdings"), was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability company (the "Company" or "CODI"), was also formed on November 18, 2005 with equity interests which were subsequently reclassified as the "Allocation Interests". The Trust and the Company were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. In accordance with the amended and restated Trust Agreement, dated as of April 25, 2006 (the "Trust Agreement"), the Trust is sole owner of 100% of the Trust Interests (as defined in the Company’s amended and restated operating agreement, dated as of April 25, 2006 (as amended and restated, the "LLC Agreement")) of the Company and, pursuant to the LLC Agreement, the Company has, outstanding, the identical number of Trust Interests as the number of outstanding common shares of the Trust. The Company is the operating entity with a board of directors and other corporate governance responsibilities, similar to that of a Delaware corporation.

The Company is a controlling owner of eight businesses, or reportable operating segments, at March 31, 2017. The segments are as follows: 5.11 Acquisition Corp. ("5.11" or "5.11 Tactical"), The Ergo Baby Carrier, Inc. ("Ergobaby"), Liberty Safe and Security Products, Inc. ("Liberty Safe" or "Liberty"), Fresh Hemp Foods Ltd. ("Manitoba Harvest"), Compass AC Holdings, Inc. ("ACI" or "Advanced Circuits"), AMT Acquisition Corporation ("Arnold" or "Arnold Magnetics"), Clean Earth Holdings, Inc. ("Clean Earth"), and Sterno Products, LLC ("Sterno" or "Sterno Products"). Refer to Note E - "Operating Segment Data" for further discussion of the operating segments.

Compass Group Management LLC, a Delaware limited liability company ("CGM" or the "Manager"), manages the day to day operations of the Company and oversees the management and operations of our businesses pursuant to a management services agreement ("MSA").

Note B - Presentation and Principles of Consolidation

The condensed consolidated financial statements for the three month periods ended March 31, 2017 and March 31, 2016, are unaudited, and in the opinion of management, contain all adjustments necessary for a fair presentation of the condensed consolidated financial statements. Such adjustments consist solely of normal recurring items. Interim results are not necessarily indicative of results for a full year or any subsequent interim period. The condensed consolidated financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of the Company. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Seasonality

Earnings of certain of the Company’s operating segments are seasonal in nature. Earnings from Liberty are typically lowest in the second quarter due to lower demand for safes at the onset of summer. Earnings from Clean Earth are typically lower in the winter months due to reduced levels of construction and development activity in the Northeastern United States. Sterno Products typically has higher sales in the second and fourth quarter of each year, reflecting the outdoor summer season and the holiday season.

Consolidation

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

Discontinued Operations

During the third quarter of 2016, the Company completed the sale of Tridien Medical, Inc. ("Tridien"). The results of operations of Tridien are reported as discontinued operations in the condensed consolidated statements of operations for the three months ended March 31, 2016. Refer to Note D - "Discontinued Operations" for additional information. Unless otherwise indicated, the disclosures accompanying the condensed consolidated financial statements reflect the

Company's continuing operations.

Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued new accounting guidance to simplify the accounting for goodwill impairment. The guidance removes step two of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the new guidance, a goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance remains largely unchanged. Entities will continue to have the option to perform a qualitative test to determine if a quantitative test is necessary. The guidance is effective for fiscal years and interim periods within those year, after December 31, 2019, with early adoption permitted for any goodwill impairment tests performed after January 1, 2017 and will be applied prospectively. The Company adopted this guidance early, effective January 1, 2017, on a prospective basis, and will apply the guidance as necessary to annual and interim goodwill testing performed subsequent to January 1, 2017.

Recently Issued Accounting Pronouncements

In March 2017, the FASB issued new guidance that will require employers that sponsor defined benefit plans to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period, and requires the other components of net periodic pension cost to be presented in the income statement separately from the service component cost and outside a subtotal of income from operations. The new guidance shall be applied retrospectively for the presentation of of the service cost component and the other components of net periodic pension cost. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company's Arnold business segment has a defined benefit plan covering substantially all of Arnold's employees at its Switzerland location. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In January 2017, the FASB issued new guidance that changes the definition of a business to assist entities in evaluating when a set of transferred assets and activities constitutes a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If so, the set of transferred asset and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in the new revenue recognition guidance. The new standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In August 2016, the FASB issued an accounting standard update which updates the guidance as to how certain cash receipts and cash payments should be presented and classified within the statement of cash flows. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted, including adoption in an interim period.

In February 2016, the FASB issued an accounting standard update related to the accounting for leases which will require an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. The standard update offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, the new standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires modified retrospective adoption, with early adoption permitted. Accordingly, this standard is effective for the Company on January 1, 2019. The Company is currently assessing the impact of the new standard on our consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard. The new standard outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is designed to create greater comparability for financial statement users across industries, jurisdictions and capital markets and also requires enhanced disclosures. The new standard will be effective for the Company beginning January 1, 2018. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company currently anticipates adopting the standard using the cumulative catch-up transition method. The Company has commenced its initial assessment to evaluate the impact, if any, the new revenue standard will have on the Company’s consolidated financial statements. During this initial assessment, the Company has identified certain differences that will likely have the most impact; however, the significance of any impact cannot be determined during this phase of the Company’s implementation process. These differences relate to the new concepts of variable consideration, consideration payable and the focus on control to determine when and how revenue should be recognized (i.e. point in time versus over time). The Company expects to complete its initial assessment by the end of the third quarter of 2017 and finalize its implementation process prior to the adoption of the new revenue standard on January 1, 2018. The Company will also continue to monitor for any additional implementation or other guidance that may be issued in 2017 with respect to the new revenue standard and adjust its assessment and implementation plans accordingly.

Note C — Acquisitions
Acquisition of 5.11 Tactical
On August 31, 2016, 5.11 ABR Merger Corp. ("Merger Sub"), a wholly owned subsidiary of 5.11 ABR Corp. ("Parent"), which in turn is a wholly owned subsidiary of the Company, merged with and into 5.11 Tactical, with 5.11 Tactical as the surviving entity, pursuant to an agreement and plan of merger among Merger Sub, Parent, 5.11 Tactical, and TA Associates Management L.P. entered into on July 29, 2016.

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

The Company made loans to, and purchased a 97.5% controlling interest in 5.11 ABR Corp.. The purchase price, including proceeds from noncontrolling interest and net of transaction costs, was approximately $408.2 million. The Company funded its portion of the acquisition through an amendment to the 2014 Credit Facility that allowed for an increase in the 2014 Revolving Credit Facility and the 2016 Incremental Term Loan (refer to Note I - "Debt"). 5.11 management invested in the transaction along with the Company, representing approximately 2.5% initial noncontrolling interest on a primary and fully diluted basis. The fair value of the noncontrolling interest was determined based on the enterprise value of the acquired entity multiplied by the ratio of the number of shares acquired by the minority holders to total shares. The transaction was accounted for as a business combination. CGM acted as an advisor to the Company in the acquisition and will continue to provide integration services during the first year of the Company's ownership of 5.11. CGM will receive integration service fees of $3.5 million payable quarterly over a twelve month period as services are rendered beginning in the quarter ended December 31, 2016.

The results of operations of 5.11 have been included in the consolidated results of operations since the date of acquisition. 5.11's results of operations are reported as a separate operating segment. The table below provides the recording of assets acquired and liabilities assumed as of the acquisition date.

5.11 Tactical	
(in thousands)	
Amounts recognized as of the acquisition date	
Assets:	
Cash	$12,581
Accounts receivable (1)	38,323
Inventory (2)	160,304
Property, plant and equipment (3)	22,723
Intangible assets	127,890
Goodwill	92,966
Other current and noncurrent assets	4,884
Total assets	459,671
Liabilities and noncontrolling interest:	
Current liabilities	$38,229
Other liabilities	180,231

Deferred tax liabilities	10,163
Noncontrolling interest	5,568
Total liabilities and noncontrolling interest	234,191

Net assets acquired	225,480
Noncontrolling interest	5,568
Intercompany loans to business	179,237
	$410,285

Acquisition Consideration	
Purchase price	$400,000
Working capital adjustment	(2,296)
Cash	12,581
Total purchase consideration	$410,285
Less: Transaction costs	2,063
Purchase price, net	$408,222

(1) Includes $40.1 million of gross contractual accounts receivable of which $1.7 million was not expected to be collected. The fair value of accounts receivable approximated book value acquired.
(2) Includes $39.1 million in inventory basis step-up, which will be charged to cost of goods sold over the inventory turns of the acquired entity.

(3) Includes $7.6 million of property, plant and equipment basis step-up.

The Company incurred $2.1 million of transaction costs in conjunction with the 5.11 acquisition, which was included in selling, general and administrative expense in the consolidated statements of income during the year of acquisition. The allocation of the purchase price presented above is based upon management's estimate of the fair values using valuation techniques including income, cost and market approaches. In estimating the fair value of the acquired assets and assumed liabilities, the fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected future growth rates and estimated discount rates. Current and noncurrent assets and current and other liabilities are estimated at their historical carrying values. Property, plant and equipment is valued through a purchase price appraisal and will be depreciated on a straight-line basis over the respective remaining useful lives. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships, as well as expected future synergies. The goodwill of $93.0 million reflects the strategic fit of 5.11 in the Company's branded products business and is not expected to be deductible for income tax purposes. The purchase accounting for 5.11 was finalized during the fourth quarter of 2016, with the changes from the provisional purchase price allocation related to the settlement of working capital and the recording of a change in the deferred taxes related to a reduction of net operating loss carryforwards.

The intangible assets recorded related to the 5.11 acquisition are as follows (in thousands):

Intangible assets	Amount	Estimated Useful Life
Trade name	$48,665	15 years
Customer relationships	75,218	15 years
Technology	4,007	10 years
	$127,890	

The customer relationships intangible asset was valued at $75.2 million using an excess earnings methodology, in which an asset is valuable to the extent it enables its owners to earn a return in excess of the required returns on and of the other assets utilized in the business. Customer relationships intangible asset was derived using a risk-adjusted discount rate. The tradename intangible asset and the design patent technology asset were valued using a royalty savings methodology, in which an asset is valuable to the extent that the ownership of the asset relieves the company from the obligation of paying royalties for the benefits generated by the asset.

Unaudited pro forma information
The following unaudited pro forma data for the three months ended March 31, 2016 gives effect to the acquisition of 5.11 Tactical, as described above, as if the acquisition had been completed as of January 1, 2016, and the sale of Tridien as if the disposition had been completed on January 1, 2016. The pro forma data gives effect to historical operating results with adjustments to interest expense, amortization and depreciation expense, management fees and related tax effects. The information is provided for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transaction had been consummated on the date indicated, nor is it necessarily indicative of future operating results of the consolidated companies, and should not be construed as representing results for any future period.

(in thousands)	Three months ended March 31, 2016
Net sales	$261,265
Gross profit	94,216
Operating income	6,769
Net loss	(19,236)
Net loss attributable to Holdings	(20,343)
Basic and fully diluted net loss per share attributable to Holdings	$(0.39)

Other acquisitions

Ergobaby
On May 11, 2016, the Company's Ergobaby subsidiary acquired all of the outstanding membership interests in New Baby Tula LLC ("Baby Tula"), a maker of premium baby carriers, toddler carriers, slings, blankets and wraps. The purchase price was $73.8 million, net of transaction costs, plus a potential earn-out of $8.2 million based on 2017 financial performance. Ergobaby paid $0.8 million in transaction costs in connection with the acquisition. Ergobaby funded the acquisition and payment of related transaction costs through the issuance of an additional $68.2 million in intercompany loans with the Company, and the issuance of $8.2 million in Ergobaby shares to the selling shareholders. Ergobaby recorded a purchase price allocation of $13.2 million in goodwill, which is expected to be deductible for income tax purposes, $55.3 million in intangible assets comprised of $52.9 million in finite lived tradenames, $1.7 million in non-compete agreements; and $0.7 million in customer relationships, and $4.8 million in inventory step-up. In addition, the earn-out provision of the purchase price was allocated a fair value of $3.8 million. The remainder of the purchase consideration was allocated to net assets acquired. The Company finalized the purchase price for the Baby Tula acquisition during the fourth quarter of 2016.
Clean Earth
On June 1, 2016, the Company's Clean Earth subsidiary acquired certain of the assets and liabilities of EWS Alabama, Inc. ("EWS"). Clean Earth funded the acquisition and the related transaction costs through the issuance of additional intercompany debt with the Company. Based in Glencoe, Alabama, EWS provides a range of hazardous and non-hazardous waste management services from a fully permitted hazardous waste RCRA Part B facility. In connection with the acquisition, Clean Earth recorded a purchase price allocation of $3.6 million in goodwill and $12.1 million in intangible assets.
On April 15, 2016, Clean Earth acquired certain assets of Phoenix Soil, LLC ("Phoenix Soil") and WIC, LLC (together with Phoenix Soil, the "Sellers"). Phoenix Soil is based in Plainville, Connecticut and provides environmental services for nonhazardous contaminated soil materials with a primary focus on soil. Phoenix Soil recently completed its transition to a new 58,000 square foot thermal desorption facility owned by WIC, LLC. The acquisition increases Clean Earth's soil treatment capabilities and expand its geographic footprint into New England. Clean Earth financed the acquisition and payment of related transaction costs through the issuance of additional

intercompany loans with the Company. In connection with the acquisition, Clean Earth recorded a purchase price allocation of $3.2 million in goodwill and $5.6 million in intangible assets.
Sterno Products
On January 22, 2016, Sterno Products, a wholly owned subsidiary of the Company, acquired all of the outstanding stock of Northern International, Inc. (NII), for a total purchase price of approximately $35.8 million (C$50.6 million), plus a potential earn-out opportunity payable over the next two years up to a maximum amount of $1.8 million (C$2.5 million), and is subject to working capital adjustments. The contingent consideration was fair valued at $1.5 million, based on probability weighted models of the

achievement of certain performance based financial targets. Headquartered in Coquitlam, British Columbia, Canada, NII sells flameless candles and outdoor lighting products through the retail segment. Sterno Products financed the acquisition and payment of the related transaction costs through the issuance of an additional $37.0 million in intercompany loans with the Company.
In connection with the acquisition, Sterno recorded a purchase price allocation of $6.0 million of goodwill, which is not expected to be deductible for income tax purposes, $12.7 million in intangible assets and $1.2 million in inventory step-up. In addition, the earn-out provision of the purchase price was allocated a fair value of $1.5 million. The remainder of the purchase consideration was allocated to net assets acquired. Sterno Products incurred $0.4 million in acquisition related costs in connection with the NII acquisition.

Note D - Discontinued operations

Sale of Tridien

On September 21, 2016, the Company sold its majority owned subsidiary, Tridien, based on an enterprise value of $25 million. After the allocation of the sale proceeds to non-controlling equity holders and the payment of transaction expenses, the Company received approximately $22.7 million in net proceeds at closing related to its debt and equity interests in Tridien. The Company recognized a gain of $1.7 million for the year ended December 31, 2016 as a result of the sale of Tridien. Approximately $1.6 million of the proceeds received by the Company from the sale of Tridien have been reserved to support the Company's indemnification obligations for future claims against Tridien that the Company may be liable for under the terms of the Tridien sale agreement.

Operating results of discontinued operations

Summarized operating results of discontinued operations for the three months ended March 31, 2016 are as follows:

	Three months ended March 31, 2016
(in thousands)	Tridien
Net sales	$14,760
Gross profit	2,142
Operating loss	(577)
Income from continuing operations before income taxes	413
Provision for income taxes	—
Income from discontinued operations [(1)]	$413

[(1)] The results for the three months ended March 31, 2016 exclude $0.3 million of intercompany interest expense.

Gain on sale of businesses

During the first quarter of 2017, the Company settled the remaining outstanding escrow items related to the sale of American Furniture Manufacturing, Inc. in 2015, and received a settlement related to the Camelbak Products, LLC business, which was also sold in 2015. As a result of these transactions, the Company recognized a gain on sale of discontinued operations of $0.3 million for the three months ended March 31, 2017.

Note E — Operating Segment Data

At March 31, 2017, the Company had eight reportable operating segments. Each operating segment represents a platform acquisition. The Company's operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. A description of each of the reportable segments and the types of products and services from which each segment derives its revenues is as follows:

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

- Ergobaby, headquartered in Los Angeles, California, is a designer, marketer and distributor of wearable baby carriers and accessories, blankets and swaddlers, nursing pillows, and related products. Ergobaby primarily sells its Ergobaby and Baby Tula branded products through brick-and-mortar retailers, national chain stores, online retailers, its own websites and distributors and derives approximately 57% of its sales from outside of the United States.

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

- Manitoba Harvest is a pioneer and leader in the manufacture and distribution of branded, hemp-based foods and hemp based ingredients. Manitoba Harvest's products, which include Hemp Hearts™, Hemp Heart Bites™, Hemp Heart Bars™, and Hemp protein powders, are currently carried in over 13,000 retail stores across the U.S. and Canada. Manitoba Harvest is headquartered in Winnipeg, Manitoba.

- Advanced Circuits, an electronic components manufacturing company, is a provider of small-run, quick-turn and volume production rigid printed circuit boards. ACI manufactures and delivers custom printed circuit boards to customers primarily in North America. ACI is headquartered in Aurora, Colorado.

- Arnold Magnetics is a global manufacturer of engineered magnetic solutions for a wide range of specialty applications and end-markets, including aerospace and defense, motorsport/automotive, oil and gas, medical, general industrial, electric utility, reprographics and advertising specialty markets. Arnold Magnetics produces high performance permanent magnets (PMAG), flexible magnets (FlexMag) and precision foil products (Precision Thin Metals) that are mission critical in motors, generators, sensors and other systems and components. Based on its long-term relationships, Arnold has built a diverse and blue-chip customer base totaling more than 2,000 clients worldwide. Arnold Magnetics is headquartered in Rochester, New York.

- Clean Earth provides environmental services for a variety of contaminated materials including soils, dredged material, hazardous waste and drill cuttings. Clean Earth analyzes, treats, documents and recycles waste streams generated in multiple end-markets such as power, construction, oil and gas, infrastructure, industrial and dredging. Clean Earth is headquartered in Hatboro, Pennsylvania and operates 18 facilities in the eastern United States.

- Sterno Products is a manufacturer and marketer of portable food warming fuel and creative table lighting solutions for the food service industry and flameless candles and outdoor lighting products for consumers. Sterno's products include wick and gel chafing fuels, butane stoves and accessories, liquid and traditional wax candles, catering equipment and outdoor lighting products. Sterno Products is headquartered in Corona, California.

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

A disaggregation of the Company’s consolidated revenue and other financial data for the three months ended March 31, 2017 and 2016 is presented below (in thousands):

Net sales of operating segments	Three months ended March 31, 2017	2016
5.11 Tactical	$78,513	$—
Ergobaby	22,613	19,415
Liberty	27,978	29,000
Manitoba Harvest	13,128	13,717
ACI	21,460	21,517
Arnold Magnetics	26,496	27,383
Clean Earth	47,276	38,286
Sterno Products	52,528	43,969
Total	289,992	193,287
Reconciliation of segment revenues to consolidated revenues:		
Corporate and other	—	—
Total consolidated revenues	$289,992	$193,287

Profit (loss) of operating segments [1]	Three months ended March 31, 2017	2016
5.11 Tactical	$(9,485)	$—
Ergobaby	5,200	4,090
Liberty	2,480	4,841
Manitoba Harvest	223	363
ACI	5,640	5,832
Arnold Magnetics	(8,397)	626
Clean Earth	(446)	(958)
Sterno Products	3,652	2,412
Total	(1,133)	17,206
Reconciliation of segment profit to consolidated income (loss) before income taxes:		
Interest expense, net	(7,136)	(11,462)
Other income (expense), net	(22)	3,256
Loss on equity method investment	(5,620)	(10,623)
Corporate and other [2]	(11,212)	(9,695)
Total consolidated loss before income taxes	$(25,123)	$(11,318)

[1] Segment profit (loss) represents operating income (loss).
[2] Primarily relates to management fees expensed and payable to CGM, and corporate overhead expenses.

	Accounts Receivable		Identifiable Assets		Depreciation and Amortization Expense	
	March 31,	December 31,	March 31,	December 31,	Three months ended March 31,	
	2017	2016	2017 [1]	2016 [1]	2017	2016
5.11 Tactical	$46,707	$49,653	$294,159	$311,560	$17,532	$—
Ergobaby	9,359	11,018	113,559	113,814	653	835
Liberty	14,941	13,077	26,399	26,344	599	656
Manitoba Harvest	5,568	6,468	96,164	97,977	1,510	1,314
ACI	6,598	6,686	16,404	16,541	873	841
Arnold Magnetics	15,145	15,195	65,490	64,209	2,045	2,237
Clean Earth	46,142	45,619	189,979	193,250	5,227	4,955
Sterno Products	36,547	38,986	135,514	134,661	2,956	3,451
Allowance for doubtful accounts	(8,122)	(5,511)	—	—	—	—
Total	172,885	181,191	937,668	958,356	31,395	14,289
Reconciliation of segment to consolidated total:						
Corporate and other identifiable assets [2]	—	—	86,077	145,971	—	—
Amortization of debt issuance costs and original issue discount	—	—	—	—	1,199	738
Total	$172,885	$181,191	$1,023,745	$1,104,327	$32,594	$15,027

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

(2) Corporate and other identifiable assets for the year ended December 31, 2016 includes the Company's investment in FOX, which was sold during the first quarter of 2017 - refer to Note F - "Investment in FOX".

Geographic Information

International Revenues	Three months ended March 31,	
	2017	2016
5.11 Tactical	$25,266	$—
Ergobaby	12,814	10,377
Manitoba Harvest	5,895	6,130
Arnold Magnetics	11,055	10,799
Sterno Products	634	5,192
	$55,664	$32,498

Note F - Investment in FOX

FOX, a former majority owned subsidiary of the Company that is publicly traded on the NASDAQ Stock Market under the ticker "FOXF," is a designer, manufacturer and marketer of high-performance ride dynamic products used primarily for bicycles, side-by-side vehicles, on-road vehicles with off-road capabilities, off-road vehicles and trucks, all-terrain vehicles, snowmobiles, specialty vehicles and applications, and motorcycles. The Company held a 41%, ownership interest in FOX as of January 1, 2016, and a 14% ownership interest as of January 1, 2017. The investment in FOX was accounted for using the fair value option.

In March 2016, FOX closed on a secondary public offering (the March 2016 Offering") of 2,500,000 FOX common shares held by the Company. Concurrently with the closing of the March 2016 Offering, FOX repurchased 500,000 shares of FOX common shares directly from the Company. As a result of the sale of shares through the March 2016 Offering and the repurchase of shares by FOX, the Company sold a total of 3,000,000 shares of FOX common stock, with total net proceeds of approximately $47.7

million. Upon completion of the March 2016 Offering and repurchase of shares by FOX, the Company's ownership interest in FOX was reduced from approximately 41% to 33%.
In August 2016, FOX closed on a secondary public offering (the "August Offering") of 4,025,000 shares held by certain FOX shareholders, including the Company. The Company sold a total of 3,500,000 shares of FOX common stock in the August Offering, for total net proceeds of $63.0 million. Upon completion of the August Offering, the Company's ownership of FOX decreased from approximately 33% to approximately 23%.
In November 2016, FOX closed on a secondary public offering (the "November Offering") of 3,500,000 shares of FOX common stock held by the Company, for total net proceeds of $71.8 million. Upon completion of the November Offering, the Company's ownership of FOX decreased from approximately 23% to approximately 14%. The Company's investment in FOX had a fair value of $141.8 million on December 31, 2016 based on the closing price of FOX shares on that date.
In March 2017, FOX closed on a secondary public offering (the "March 2017 Offering") through which the Company sold their remaining 5,108,718 shares in FOX for total net proceeds of $136.1 million. Subsequent to the March 2017 Offering, the Company no longer holds an ownership interest in FOX.

Note G — Property, Plant and Equipment and Inventory
Property, plant and equipment
Property, plant and equipment is comprised of the following at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017	December 31, 2016
Machinery and equipment	$151,876	$155,591
Furniture, fixtures and other	20,876	13,737
Leasehold improvements	15,207	14,156
Buildings and land	35,551	35,392
Construction in process	12,592	8,308
	236,102	227,184
Less: accumulated depreciation	(92,930)	(84,814)
Total	$143,172	$142,370

Depreciation expense was $8.0 million for the three months ended March 31, 2017, and $5.7 million for the three months ended March 31, 2016.
Inventory
Inventory is comprised of the following at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017	December 31, 2016
Raw materials and supplies	$30,404	$29,708
Work-in-process	9,570	8,281
Finished goods	176,669	182,886
Less: obsolescence reserve	(8,317)	(7,891)
Total	$208,326	$212,984

Note H — Goodwill and Other Intangible Assets

As a result of acquisitions of various businesses, the Company has significant intangible assets on its balance sheet that include goodwill and indefinite-lived intangibles. Goodwill represents the difference between purchase cost and the fair value of net assets acquired in business acquisitions. Indefinite lived intangible assets are not amortized unless their useful life is determined to be finite. Long-lived intangible assets are subject to amortization using the straight-line method. The Company’s goodwill and indefinite-lived intangibles are tested and reviewed for impairment annually as of March 31st or more frequently if facts and

circumstances warrant by comparing the fair value of each reporting unit to its carrying value. Each of the Company's businesses represents a reporting unit, except Arnold, which comprises three reporting units.

Goodwill

2017 Annual goodwill impairment testing

The Company uses a qualitative approach to test goodwill for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment testing. The qualitative factors we consider include, in part, the general macroeconomic environment, industry and market specific conditions for each reporting unit, financial performance including actual versus planned results and results of relevant prior periods, operating costs and cost impacts, as well as issues or events specific to the reporting unit. At March 31, 2017, we determined that the Manitoba Harvest reporting unit required further quantitative testing (step 1) because we could not conclude that the fair value of the reporting unit exceeds its carrying value based on qualitative factors alone. The Company utilized an income approach to perform the Step 1 testing at Manitoba Harvest. The weighted average cost of capital used in the income approach for Manitoba Harvest was 12.0%. Results of the step 1 quantitative testing of Manitoba Harvest indicated that the fair value of Manitoba Harvest exceeded its carrying value by 15.0%. For the reporting units that were tested qualitatively, the Company concluded that the results of the qualitative analysis indicated that the fair value of those reporting units exceeded their carrying value and that a quantitative analysis was not necessary. The Company expects to conclude the goodwill impairment testing during the quarter ended June 30, 2017.

2016 Interim goodwill impairment testing

Arnold

As a result of decreases in forecasted revenue, operating income and cash flows at Arnold, as well as a shortfall in revenue and operating income during the latter half of 2016 as compared to budgeted amounts, the Company determined that it was necessary to perform interim goodwill impairment testing on each of the three reporting units at Arnold. The Company performed Step 1 of the goodwill impairment assessment at December 31, 2016. In Step 1 of the goodwill impairment test, the Company compared the fair value of the reporting units to the carrying amount. Based on the results of the valuation, the fair value of the FlexMag and PTM reporting units exceeded the carrying amount, therefore no additional goodwill testing was required. The results of the Step 1 test for the PMAG unit indicated a potential impairment of goodwill and the Company performed the second step of goodwill impairment testing (Step 2) to determine the amount of impairment of the PMAG reporting unit.

In the first test of goodwill impairment testing, we compare the fair value of each reporting unit to its carrying amount. For purposes of the Step 1 for the Arnold reporting units, we estimated the fair value of the reporting unit using an income approach, whereby we estimate the fair value of a reporting unit based on the present value of future cash flows. Cash flow projections are based on management's estimate of revenue growth rates and operating margins and take into consideration industry and market conditions as well as company and reporting unit specific economic factors. The discount rate used is based on the weighted average cost of capital adjusted for the relevant risk associated with the business specific characteristics and the uncertainty associated with the reporting unit's ability to execute on the projected cash flows. For the step 1 quantitative impairment testing for Arnold's reporting units, we used only an income approach because we determined that the guideline public company comparables for PMAG, FlexMag and PTM were not representative of these three reporting units. In the income approach, we used a weighted average cost of capital of 12.5% for PMAG, 12.0% for Flexmag and 13.0% for PTM.

The Company had not completed the Step 2 analysis as of December 31, 2016, and therefore estimated a range of impairment loss of $14 million to $19 million based on the value of the total invested capital of the PMAG unit as well as the results of the Step 1 testing of the fair value of PMAG. The Company recorded an estimated impairment loss for PMAG of $16 million at December 31, 2016 based on that range. The Company completed the Step 2 goodwill impairment test of the PMAG reporting unit in the first quarter of 2017, and the results indicated total impairment of the goodwill of the PMAG reporting unit of $24.9 million. The Step 2 impairment was higher than the initial estimate at December 31, 2016 due primarily to the valuation of PMAG's property, plant and equipment during the Step 2 exercise. The Company recorded the additional impairment loss of $8.9 million in the first quarter of 2017.

2016 Annual goodwill impairment testing

At March 31, 2016, we determined that the Tridien reporting unit (which is reported as a discontinued operations in the accompanying financial statements after the sale of the reporting unit in September 2016) required further quantitative testing (step 1) because we could not conclude that the fair value of the reporting unit exceeds its carrying value based on qualitative factors alone. Results of the step 1 quantitative testing of Tridien indicated that the fair value of Tridien exceeded its carrying value. For the reporting units that were tested qualitatively, the results of the qualitative analysis indicated that the fair value of those reporting units exceeded their carrying value.

A summary of the net carrying value of goodwill at March 31, 2017 and December 31, 2016, is as follows (in thousands):

	Three months ended March 31, 2017	Year ended December 31, 2016
Goodwill - gross carrying amount	514,741	507,637
Accumulated impairment losses	(24,864)	(16,000)
Goodwill - net carrying amount	$489,877	$491,637

The following is a reconciliation of the change in the carrying value of goodwill for the three months ended March 31, 2017 by operating segment (in thousands):

	Corporate (1)	5.11	Ergobaby	Liberty	Manitoba Harvest	ACI	Arnold (2)	Clean Earth	Sterno	Total
Balance as of January 1, 2017	$ 8,649	$92,966	$61,031	$32,828	$44,171	$58,019	$35,767	$118,224	$39,982	$491,637
Acquisition [3]	—	—	—	—	—	—	—	6,722	—	6,722
Impairment expense	—	—	—	—	—	—	(8,864)	—	—	(8,864)
Foreign currency translation	—	—	(3)	—	385	—	—	—	—	382
Balance as of March 31, 2017	$ 8,649	$92,966	$61,028	$32,828	$44,556	$58,019	$26,903	$124,946	$39,982	$489,877

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

(2) Arnold Magnetics has three reporting units PMAG, FlexMag and Precision Thin Metals with goodwill balances of $15.6 million, $4.8 million and $6.5 million, respectively.

(3) The goodwill related to an acquisition by Clean Earth is based on a preliminary purchase price allocation.

Long lived assets

2017 Annual indefinite lived impairment testing

The Company uses a qualitative approach to test indefinite lived intangible assets for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of an indefinite lived intangible asset is impaired as a basis for determining whether it is necessary to perform quantitative impairment testing. The Company evaluated the qualitative factors of each reporting unit that maintains indefinite lived intangible assets in connection with the annual impairment testing for 2017. Results of the qualitative analysis indicate that the carrying value of the Company’s indefinite lived intangible assets did not exceed their fair value. The Company expects to conclude the goodwill impairment testing during the quarter ended June 30, 2017.

2016 Annual indefinite lived impairment testing

The Company used a qualitative approach to test indefinite lived intangible assets for impairment by first assessing qualitative factors to determine whether it is more-likely-than-not that the fair value of an indefinite lived intangible asset is impaired as a basis for determining whether it is necessary to perform quantitative impairment testing. The Company evaluated the qualitative factors of each reporting unit that maintains indefinite lived intangible assets in connection with the annual impairment testing for 2016. Results of the qualitative analysis indicate that the carrying value of the Company’s indefinite lived intangible assets did not exceed their fair value.

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Other intangible assets are comprised of the following at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017	December 31, 2016	Weighted Average Useful Lives
Customer relationships	$305,151	$304,751	13
Technology and patents	44,850	44,710	9
Trade names, subject to amortization	128,697	128,675	13
Licensing and non-compete agreements	7,845	7,845	4
Permits and airspace	113,321	113,295	13
Distributor relations and other	606	606	5
	600,470	599,882	
Accumulated amortization:			
Customer relationships	(84,776)	(79,607)	
Technology and patents	(19,451)	(18,290)	
Trade names, subject to amortization	(8,394)	(6,833)	
Licensing and non-compete agreements	(6,113)	(5,987)	
Permits and airspace	(23,841)	(21,531)	
Distributor relations and other	(606)	(606)	
Total accumulated amortization	(143,181)	(132,854)	
Trade names, not subject to amortization	72,290	72,183	
Total intangibles, net	$529,579	$539,211	

Amortization expense related to intangible assets was $10.3 million for the three months ended March 31, 2017, and $7.4 million for the three months ended March 31, 2016. Estimated charges to amortization expense of intangible assets over the next five years, is as follows (in thousands):

April 1, 2016 through Dec. 31, 2017	$30,606
2018	39,420
2019	38,130
2020	37,644
2021	37,341
	$183,141

Note I — Debt

2014 Credit Facility

The 2014 Credit Facility is secured by all of the assets of the Company, including all of its equity interests in, and loans to, its consolidated subsidiaries. The Company amended the 2014 Credit Facility in June 2015, primarily to allow for intercompany loans to, and the acquisition of, Canadian-based companies on an unsecured basis, and to modify provisions that would allow for early termination of a "Leverage Increase Period," thereby providing additional flexibility as to the timing of subsequent acquisitions. On August 15, 2016, the Company amended the 2014 Credit Facility to, among other things, increase the aggregate amount of the 2014 Credit Facility by $400 million. On August 31, 2016, the Company entered into an Incremental Facility Amendment to the 2014 Credit Agreement (the "Incremental Facility Amendment"). The Incremental Facility Amendment provided for an increase to the 2014 Revolving Credit Facility of $150 million, and the 2016 Incremental Term Loan, in the amount of $250 million. As a result of the Incremental Facility Amendment, the 2014 Credit Facility currently provides for (i) a revolving credit facility of $550 million (as amended from time to time, the "2014 Revolving Credit Facility"), (ii) a $325 million term loan (the "2014 Term Loan Facility"), and (iii) a $250 million incremental term loan ""the "2016 Incremental Term Loan").

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2014 Revolving Credit Facility

The 2014 Revolving Credit Facility will become due in June 2019. The Company can borrow, prepay and reborrow principal under the 2014 Revolving Credit Facility from time to time during its term. Advances under the 2014 Revolving Credit Facility can be either LIBOR rate loans (as defined below) or base rate loans. LIBOR rate revolving loans bear interest at a rate per annum equal to the London Interbank Offered Rate (the "LIBOR Rate") plus a margin ranging from 2.00% to 2.75% based on the ratio of consolidated net indebtedness to adjusted consolidated earnings before interest expense, tax expense and depreciation and amortization expenses (the "Consolidated Leverage Ratio"). Base rate revolving loans bear interest at a fluctuating rate per annum equal to the greatest of (i) the prime rate of interest, or (ii) the Federal Funds Rate plus 0.50% (the "Base Rate"), plus a margin ranging from 1.00% to 1.75% based upon the Consolidated Leverage Ratio.

Term Loans

2014 Term Loan
The 2014 Term Loan Facility expires in June 2021 and requires quarterly payments that commenced September 30, 2014, with a final payment of all remaining principal and interest due on June 6, 2021. The 2014 Term Loan Facility was issued at an original issue discount of 99.5% of par value.

2016 Incremental Term Loan

The 2016 Incremental Term Loan was issued at an original issue discount of 99.25% of par value. The Company incurred $6.0 million in additional debt issuance costs related to the Incremental Credit Facility, which will be recognized as expense during the remaining term of the related 2014 Revolving Credit Facility, and 2014 Term Loan and 2016 Incremental Term Loan. The Incremental Facility Amendment did not change the due dates or applicable interest rates of the 2014 Credit Agreement. The quarterly payments for the term advances under the 2014 Credit Agreement increased to approximately $1.4 million per quarter. The Company used the proceeds from the Incremental Facility Amendment to fund the acquisition of 5.11 Tactical (refer to Note C - "Acquisitions"). The additional advances under the Incremental Credit Facility was a loan modification for accounting purposes. Consequently, the Company capitalized debt issuance costs of $6.0 million associated with fees charged by lenders of the Incremental Credit Facility. The capitalized debt issuance costs will be amortized over the remaining period of the 2014 Credit Facility.

In March 2017, the Company amended the 2014 Credit Facility (the "Fourth Amendment") to reduce the applicable rate of interest for the 2014 Term Loan and 2016 Incremental Term Loan. Under the Fourth Amendment, outstanding LIBOR loans bear interest at LIBOR plus an applicable rate of 2.75% and outstanding Base Rate loans bear interest at Base Rate plus 1.75%. Prior to the amendment, the outstanding term loans bore interest at LIBOR plus 3.25% or Base Rate plus 2.25%. In connection with the Fourth Amendment, the Company capitalized debt issuance costs of $1.2 million associated with fees charged by term loan lenders.

Other

The 2014 Credit Facility provides for sub-facilities under the 2014 Revolving Credit Facility pursuant to which an aggregate amount of up to $100 million in letters of credit may be issued, as well as swing line loans of up to $25 million outstanding at one time. The issuance of such letters of credit and the making of any swing line loan reduces the amount available under the 2014 Revolving Credit Facility. The Company will pay (i) commitment fees on the unused portion of the 2014 Revolving Credit Facility ranging from 0.45% to 0.60% per annum based on its Consolidated Leverage Ratio, (ii) quarterly letter of credit fees, and (iii) administrative and agency fees.

Debt Issuance Costs

Deferred debt issuance costs represent the costs associated with the entering into the 2014 Credit Facility as well as amendments to the 2014 Credit Facility, and are amortized over the term of the related debt instrument. Since the Company can borrow, repay and reborrow principal under the 2014 Revolving Credit Facility, the debt issuance costs associated with this facility have been classified as other non-current assets in the accompanying consolidated balance sheet. The debt issuance costs associated with the 2014 Term Loan and 2016 Incremental Term Loan are classified as a reduction of long-term debt in the accompanying consolidated balance sheet.

The following table summarizes debt issuance costs at March 31, 2017 and December 31, 2016, and the balance sheet classification in each of the periods presents (in thousands):

	March 31, 2017	December 31, 2016
Deferred debt issuance costs	$ 20,122	$ 18,960
Accumulated amortization	(7,180)	(6,248)
Deferred debt issuance costs, less accumulated amortization	$ 12,942	$ 12,712
Balance Sheet classification:		
Other non-current assets	$ 4,219	$ 4,698
Long-term debt	8,723	8,014
	$ 12,942	$ 12,712

The following table provides the Company’s debt holdings at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017	December 31, 2016
Revolving Credit Facility	$—	$ 4,400
Term Loan	564,236	565,658
Original issue discount	(4,292)	(4,706)
Debt issuance costs - term loan	(8,723)	(8,015)
Total debt	$ 551,221	$ 557,337
Less: Current portion, term loan facilities	(5,685)	(5,685)
Long term debt	$ 545,536	$ 551,652

Net availability under the 2014 Revolving Credit Facility was approximately $546.1 million at March 31, 2017. Letters of credit outstanding at March 31, 2017 totaled approximately $3.9 million. At March 31, 2017, the Company was in compliance with all covenants as defined in the 2014 Credit Facility.

Note J — Derivative Instruments and Hedging Activities

On September 16, 2014, the Company purchased an interest rate swap ("New Swap") with a notional amount of $220 million. The New Swap is effective April 1, 2016 through June 6, 2021, the termination date of the 2014 Term Loan. The agreement requires the Company to pay interest on the notional amount at the rate of 2.97% in exchange for the three-month LIBOR rate. At March 31, 2017 and December 31, 2016, this Swap had a fair value loss of $9.4 million and $10.7 million, respectively, principally reflecting the present value of future payments and receipts under the agreement.

The Company did not elect hedge accounting for the above derivative transaction and as a result, periodic mark-to-market changes in fair value are reflected as a component of interest expense in the consolidated statement of operations.

The following table reflects the classification of the Company's interest rate swap on the consolidated balance sheets at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017	December 31, 2016
Other current liabilities	$ 3,568	$ 4,010
Other noncurrent liabilities	5,834	6,709
Total fair value	$ 9,402	$ 10,719

Note K — Fair Value Measurement

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at March 31, 2017 and December 31, 2016 (in thousands):

	Fair Value Measurements at March 31, 2017			
	Carrying Value	Level 1	Level 2	Level 3
Liabilities:				
Put option of noncontrolling shareholders [1]	$(180)	$ —	$—	$(180)
Contingent consideration - acquisitions [2]	(4,830)	—	—	(4,830)
Interest rate swap	(9,402)	—	(9,402)	—
Total recorded at fair value	$(14,412)	$ —	$(9,402)	$(5,010)

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

(2) Represents potential earn-outs payable by Sterno Products for the acquisition of NII and Ergobaby in connection with their acquisition of Baby Tula.

	Fair Value Measurements at December 31, 2016			
	Carrying Value	Level 1	Level 2	Level 3
Assets:				
Equity method investment - FOX	$141,767	$141,767	$—	$—
Liabilities:				
Put option of noncontrolling shareholders	(180)	—	—	(180)
Contingent consideration	(4,830)	—	—	(4,830)
Interest rate swap	(10,719)	—	(10,719)	—
Total recorded at fair value	$126,038	$141,767	$(10,719)	$(5,010)

Reconciliations of the change in the carrying value of the Level 3 fair value measurements from January 1st through March 31st in 2017 and 2016 are as follows (in thousands):

	2017	2016
Balance at January 1st	$(5,010)	$(50)
Contingent consideration - acquisition	—	(1,500)
Balance at March 31st	$(5,010)	$(1,550)

Valuation Techniques

The Company has not changed its valuation techniques in measuring the fair value of any of its other financial assets and liabilities during the period. For details of the Company’s fair value measurement policies under the fair value hierarchy, refer to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

2014 Term Loan and 2016 Incremental Term Loan

At March 31, 2017, the carrying value of the principal under the Company’s outstanding Term Loans, including the current portion, was $564.2 million, which approximates fair value because it has a variable interest rate that reflects market changes in interest rates and changes in the Company's net leverage ratio. The estimated fair value of the outstanding 2014 Term Loan is based on quoted market prices for similar debt issues and is, therefore, classified as Level 2 in the fair value hierarchy.

Nonrecurring Fair Value Measurements

The following table provides the assets carried at fair value measured on a non-recurring basis as of March 31, 2017 and December 31, 2016.

	Fair Value Measurements at March 31, 2017				Three months ended
(in thousands)	Carrying Value	Level 1	Level 2	Level 3	Expense
Goodwill [1]	26,903	—	—	26,903	8,864

[1] Represents the fair value of the goodwill of the Arnold business segment. Refer to Note H "Goodwill and Other Intangible Assets" for further discussion regarding the impairment and valuation techniques applied.

	Fair Value Measurements at December 31, 2016				Year ended
(in thousands)	Carrying Value	Level 1	Level 2	Level 3	Expense
Goodwill	35,767	—	—	35,767	16,000
Property, Plant and Equipment [1]	—	—	—	—	1,824
Tradename [1]	—	—	—	—	317
Technology [1]	—	—	—	—	3,460
Customer relationships [1]	—	—	—	—	2,426
Permits [1]	—	—	—	—	1,177

[1] Represents the fair value of the respective assets of the Orbitbaby product line of Ergobaby and the Clean Earth Williamsport site, both of which were disposed of during 2016.

Note L — Stockholders' Equity

Trust Common Shares

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

Trust Preferred Shares

Pursuant to the Trust Agreement, the Trust is authorized to issue up to 50,000,000 Trust preferred shares and the Company is authorized to issue a corresponding number of Trust Interests. As of March 31, 2017, the Trust had no preferred shares outstanding.

Profit Allocation Interests

The Allocation Interests represent the original equity interest in the Company. The holders of the Allocation Interests ("Holders") are entitled to receive distributions pursuant to a profit allocation formula upon the occurrence of certain events. The distributions of the profit allocation are paid upon the occurrence of the sale of a material amount of capital stock or assets of one of the Company's businesses ("Sale Event") or, at the option of the Holders, at each five year anniversary date of the acquisition of one of the Company's businesses ("Holding Event"). The Company records distributions of the profit allocation to the Holders upon occurrence of a Sale Event or Holding Event as distributions declared on Allocation Interests to stockholders' equity when they are approved by the Company's board of directors. The sale of FOX shares in March 2017 (refer to Note F - "Investment in FOX") qualified as a Sale Event under the Company's LLC Agreement. In April 2017, with respect to the sale of FOX shares in March 2017, the Company's board of directors approved and declared a profit allocation payment totaling $25.8 million that will be paid in the second quarter of 2017.

The sale of FOX shares in March 2016 (refer to Note F - "Investment in FOX") qualified as a Sale Event under the Company's LLC Agreement. In April 2016, with respect to the March 2016 Offering, the Company's board of directors approved and declared

a profit allocation payment totaling $8.6 million that was paid to Holders during the second quarter of 2016. In November 2016, with respect to the sale of FOX shares in August 2016 and the sale of Tridien, both qualifying as Sale Events, the Company's board of directors approved and declared a profit allocation payment of $7.0 million that was paid during the fourth quarter of 2016. In the fourth quarter of 2016, the Company's board of directors declared a profit allocation payment to the Allocation Interest Holders of $13.4 million related to the FOX November Offering (refer to Note F - "Investment in FOX"). This amount was paid in the first quarter of 2017.
The Company's board of directors also declared and the Company paid an $8.2 million distribution in the third quarter of 2016 to the Allocation Member in connection with a Holding Event of our ownership of the Advanced Circuits subsidiary. The payment is in respect to Advanced Circuits' positive contribution-based profit in the five year holding period ending June 30, 2016.

Earnings per share

The Company calculates basic and diluted earnings per share using the two-class method which requires the Company to allocate participating securities that have rights to earnings that otherwise would have been available only to Trust shareholders as a separate class of securities in calculating earnings per share. The Allocation Interests are considered participating securities that contain participating rights to receive profit allocations upon the occurrence of a Holding Event or Sale Event. The calculation of basic and diluted earnings per share for the three months ended March 31, 2017 and 2016 reflects the incremental increase during the period in the profit allocation distribution to Holders related to Holding Events.
Basic and diluted earnings per share for the three months ended March 31, 2017 and 2016 attributable to Holdings is calculated as follows:

	Three months ended March 31,	
	2017	2016
Loss from continuing operations attributable to Holdings	$(21,945)	$(15,751)
Less: Profit Allocation paid to Holdings	13,354	—
Less: Effect of contribution based profit - Holding Event	1,258	850
Loss from continuing operation attributable to Trust shares	$(36,557)	$(16,601)
Income (loss) from discontinued operations attributable to Holdings	$340	$(272)
Less: Effect of contribution based profit	—	—
Income (loss) from discontinued operations attributable to Trust shares	$340	$(272)
Basic and diluted weighted average shares outstanding	59,900	54,300
Basic and fully diluted income (loss) per share attributable to Holdings		
Continuing operations	$(0.61)	$(0.31)
Discontinued operations	0.01	—
	$(0.60)	$(0.31)

Distributions

- On January 26, 2017, the Company paid a distribution of $0.36 per share to holders of record as of January 19, 2017. This distribution was declared on January 5, 2017.
- On April 27, 2017, the Company paid a distribution of $0.36 per share to holders of record as of April 21, 2017. This distribution was declared on April 6, 2017.

Note M — Warranties

The Company’s Ergobaby and Liberty operating segments estimate their exposure to warranty claims based on both current and historical product sales data and warranty costs incurred. The Company assesses the adequacy of its recorded warranty liability quarterly and adjusts the amount as necessary. A reconciliation of the change in the carrying value of the Company’s warranty liability for the three months ended March 31, 2017 and the year ended December 31, 2016 is as follows (in thousands):

	Three months ended March 31, 2017	Year ended December 31, 2016
Warranty liability:		
Beginning balance	$1,258	$ 1,259
Accrual	45	252
Warranty payments	(42)	(253)
Ending balance	$1,261	$ 1,258

Note N — Noncontrolling Interest

Noncontrolling interest represents the portion of the Company's majority-owned subsidiary's net income (loss) and equity that is owned by noncontrolling shareholders. The following tables reflect the Company's ownership percentage of its majority owned operating segments and related noncontrolling interest balances as of March 31, 2017 and December 31, 2016:

	% Ownership (1) March 31, 2017		% Ownership (1) December 31, 2016	
	Primary	Fully Diluted	Primary	Fully Diluted
5.11 Tactical	97.5	85.1		