Compass Diversified Holdings
Form 10-K
March 11, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to

Commission File Number: 001-34927

Compass Diversified Holdings

(Exact name of registrant as specified in its charter)

Delaware	**57-6218917**
(Jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Commission File Number: 001-34926

Compass Group Diversified Holdings LLC

(Exact name of registrant as specified in its charter)

Delaware	**20-3812051**
(Jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Sixty One Wilton Road	
Second Floor	
Westport, CT	**06880**
(Address of principal executive offices)	**(Zip Code)**

(203) 221-1703

(Registrants telephone number, including area code)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Shares representing beneficial interests in Compass Diversified Holdings (trust shares)	New York Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrants are collectively a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrants are collectively not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate website, 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrants are collectively 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	¨	Accelerated filer	þ
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrants are collectively a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The aggregate market value of the outstanding shares of trust stock held by non-affiliates of Compass Diversified Holdings at June 30, 2013 was $689,963,270 based on the closing price on the New York Stock Exchange on that date. For purposes of the foregoing calculation only, all directors and officers of the registrant have been deemed affiliates. There were 48,300,000 shares of trust stock without par value outstanding at February 25, 2014.

Documents Incorporated by Reference

Certain information in the registrant s definitive proxy statement to be filed with the Commission relating to the registrant s 2014 Annual Meeting of Stockholders is incorporated by reference into Part III.

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NOTE TO READER

In reading this Annual Report on Form 10-K, references to:

- the Trust and Holdings refer to Compass Diversified Holdings;
- businesses , operating segments , subsidiaries and reporting units all 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, Staffmark 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 2010 acquisitions refer to, collectively, the acquisitions of Liberty Safe and Security Products, LLC and Ergobaby Carrier, Inc.;
- the 2011 acquisition refer to the acquisition of CamelBak Products, LLC;
- the 2012 acquisition refer to the acquisition of Arnold Magnetic Technologies;
- the 2007 disposition refer to the sale of Crosman Acquisition Corporation;
- the 2008 dispositions refer to, collectively, the sales of Aeroglide Corporation and Silvue Technologies Group, Inc.;
- the 2011 disposition refer to the sale of Staffmark Holdings, Inc.;
- the 2012 disposition refer to the sale of HALO Branded Solutions.;
- the Trust Agreement refer to the amended and restated Trust Agreement of the Trust dated as of April 25, 2007;

the Prior Credit Agreement refer to the Credit Agreement with a group of lenders led by Madison Capital, LLC which provided for a Prior Revolving Credit Facility and a Prior Term Loan Facility ;

the Credit Facility refer to the Credit Facility with a group of lenders led by TD Securities (USA) LLC (TD Securities) which provides for a Revolving Credit Facility and a Term Loan Facility;

the Revolving Credit Facility refer to the $320 million Revolving Credit Facility provided by the Credit Facility that matures in April 2017;

the Term Loan Facility refer to the $279.8 million Term Loan Facility outstanding as of December 31, 2013, provided by the Credit Facility that matures in October 2017;

the LLC Agreement refer to the fourth amended and restated operating agreement of the Company dated as of January 1, 2012;

we , us and our refer to the Trust, the Company and the businesses together.

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Statement Regarding Forward-Looking Disclosure

This Annual Report on Form 10-K, including the sections entitled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, contains 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 unc events or outcomes to identify these forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K are subject to a number of risks and uncertainties, some of which are beyond our control, 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 our Manager and our Manager s right to resign;
- our trust and 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, and profit allocation 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 our Manager s ability to retain or replace qualified employees of our businesses and our Manager;
- 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. A description of some of the risks that could cause our actual results to differ appears under the section Risk Factors . 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 Annual Report on Form 10-K may not occur. These forward-looking statements are made as of the date of this Annual 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.

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PART I

ITEM 1. BUSINESS

Compass Diversified Holdings, a Delaware statutory trust (Holdings , or the Trust), was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability Company (the Company), was also formed on November 18, 2005. The Trust and the Company (collectively CODI) were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. The Trust is the sole owner of 100% of the Trust Interests, as defined in our LLC Agreement, of the Company. Pursuant to the LLC Agreement, the Trust owns an identical number of Trust Interests in the Company as exist for the number of outstanding shares of the Trust. Accordingly, our shareholders are treated as beneficial owners of Trust Interests in the Company and, as such, are subject to tax under partnership income tax provisions.

The Company is the operating entity with a board of directors whose corporate governance responsibilities are similar to that of a Delaware corporation. The Company s board of directors oversees the management of the Company and our businesses and the performance of Compass Group Management LLC (CGM or our Manager). Certain members of our Manager receive a profit allocation as owners of 53.6% of the Allocation Interests in us, as defined in our LLC Agreement.

Overview

We acquire controlling interests in and actively manage businesses that we believe (i) operate in industries with long-term macroeconomic growth opportunities, (ii) have positive and stable cash flows, (iii) face minimal threats of technological or competitive obsolescence and, (iv) have strong management teams largely in place.

Our unique public structure provides investors with an opportunity to participate in the ownership and growth of companies which have historically been owned by private equity firms, wealthy individuals or families. Through the acquisition of a diversified group of businesses with these characteristics, we believe we offer investors an opportunity to diversify their own portfolio risk while participating in the ongoing cash flows of those businesses through the receipt of quarterly distributions.

Our disciplined approach to our target market provides opportunities to methodically purchase attractive businesses at values that are accretive to our shareholders. For sellers of businesses, our unique financial structure allows us to acquire businesses efficiently with little or no third party financing contingencies and, following acquisition, to provide our businesses with substantial access to growth capital.

We believe that private company operators and corporate parents looking to sell their business units may consider us an attractive purchaser because of our ability to:

- provide ongoing strategic and financial support for their businesses;
- maintain a long-term outlook as to the ownership of those businesses where such an outlook is required for maximization of our shareholders return on investment; and
- consummate transactions efficiently without being dependent on third-party transaction financing.

In particular, we believe that our outlook on length of ownership and active management on our part may alleviate the concern that many private company operators and parent companies may have with regard to their businesses going through multiple sale processes in a short period of time. We believe this outlook reduces both the risk that businesses may be sold at unfavorable points in the overall market cycle and enhances our ability to develop a comprehensive strategy to grow the earnings and cash flows of each of our businesses, which we expect will better enable us to meet our long-term objective of continuing to pay distributions to our shareholders while increasing shareholder value. Finally, it has been our experience, that our ability to acquire businesses without the cumbersome delays and conditions typical of third party transactional financing is appealing to sellers of businesses who are interested in confidentiality and certainty to close.

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We believe our management team s strong relationships with industry executives, accountants, attorneys, business brokers, commercial and investment bankers, and other potential sources of acquisition opportunities offer us substantial opportunities to assess small to middle market businesses available for acquisition. In addition, the flexibility, creativity, experience and expertise of our management team in structuring transactions allows us to consider non-traditional and complex transactions tailored to fit a specific acquisition target.

In terms of the businesses in which we have a controlling interest as of December 31, 2013, we believe that these businesses have strong management teams, operate in strong markets with defensible market niches and maintain long standing customer relationships. We believe that the strength of this model, which provides for significant industry, customer and geographic diversity, has become even more apparent in the recent challenging economic environment.

2013 Highlights

Debt Re-pricing

On April 3, 2013, we exercised an option to increase our Term Loan Facility by $30 million. Net proceeds from this incremental term loan were used to reduce outstanding loans on our Revolving Credit Facility. In connection with the increase, we amended the pricing of our Credit Facility so that borrowings under the Term Loan Facility now bear interest at LIBOR plus 4.0% with a floor of 1.0% and borrowings under the Revolving Credit Facility now bear interest at LIBOR plus 2.5% - 3.5%. In addition, the amendment provided for a reduction in commitment fees on revolving loan availability to 0.75% and extended the maturity date on our Revolving Credit Facility to April 2017.

On August 6, 2013, we exercised an option under our Credit Facility to expand our Revolving Credit Facility by $30 million, increasing the total amount available under the facility to $320 million subject to borrowing base restrictions. We intend to utilize the incremental borrowing capacity under the Revolving Credit Facility to fund future growth opportunities and provide for working capital and general corporate purposes.

FOX IPO

On August 13, 2013 Fox Factory Holding Corp. (FOX) completed an initial public offering of its common stock pursuant to a registration statement on Form S-1 (the FOX IPO). In the FOX IPO, FOX sold 2,857,143 shares and certain of its shareholders sold 7,000,000 shares (including 5,800,238 shares held by CODI) at an initial offering price of $15.00 per share. FOX trades on The NASDAQ Stock Market LLC (the NASDAQ) stock market under the ticker FOXF . We received approximately $80.9 million in net proceeds from the sale of our FOX shares. FOX used a portion of their net proceeds received from the sale of their shares as well as proceeds from a new credit facility with a third party lender to repay $61.5 million in outstanding indebtedness to us under their credit facility.

As a result of the FOX IPO, we currently own approximately 53.9% of the outstanding shares of FOX common stock.

2013 Distributions

For the 2013 fiscal year we declared and paid distributions to our shareholders totaling $1.44 per share.

The following is a brief summary of the businesses in which we own a controlling interest at December 31, 2013:

Branded Products Businesses

CamelBak

CamelBak Products LLC (CamelBak), headquartered in Petaluma, California, is a diversified hydration and personal protection platform offering products for outdoor, recreation and military applications. CamelBak offers a broad range of recreational / military hydration packs, reusable water bottles, specialized military gloves and performance accessories. We made loans to, and purchased a controlling interest in, CamelBak on August 24, 2011 for approximately $211.6 million. We currently own 89.9% of the outstanding stock of CamelBak on a primary basis and 79.7% on a fully diluted basis.

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Ergobaby

Ergobaby Carrier, Inc. (Ergobaby), headquartered in Los Angeles, California, is a premier designer, manufacturer and distributor of wearable baby carriers and related baby wearing products, as well as stroller travel systems and accessories. Ergobaby s reputation for product innovation, reliability and safety has led to numerous awards and accolades from consumers, industry experts and publications. Ergobaby offers a broad range of wearable baby carriers, stroller travel systems and related products that are sold through more than 450 retailers and web shops in the United States and internationally. We made loans to, and purchased a controlling interest in, Ergobaby on September 16, 2010 for approximately $85.2 million. We currently own 81.0% of the outstanding stock of Ergobaby on a primary basis and 75.0% on a fully diluted basis.

FOX

FOX headquartered in Scotts Valley, California, is a designer, manufacturer and marketer of high-performance suspension products used primarily on mountain bikes, side-by-side vehicles, on-road vehicles with off-road capabilities, off-road vehicles and trucks, all-terrain vehicles, or ATVs, snowmobiles, specialty vehicles and applications, and motorcycles. FOX s products offer innovative design, performance, durability and reliability that enhance ride dynamics by improving performance and control. The FOX brand is associated with high-performance and technologically advanced products. We made loans to and purchased a controlling interest in FOX on January 4, 2008, for approximately $80.4 million. We currently own 53.9% of the outstanding common stock on a primary basis and 49.8% on a fully diluted basis.

Liberty Safe

Liberty Safe and Security Products, Inc. (Liberty Safe or Liberty), headquartered in Payson, Utah, is a designer, manufacturer and marketer of premium home and gun safes in North America. From it s over 200,000 square foot manufacturing facility, Liberty produces a wide range of home and gun safe models in a broad assortment of sizes, features and styles. We made loans to and purchased a controlling interest in Liberty Safe on March 31, 2010 for approximately $70.2 million. We currently own 96.2% of the outstanding stock of Liberty Safe on a primary basis and 84.8% on a fully diluted basis.

Niche Industrial Businesses

Advanced Circuits

Compass AC Holdings, Inc. (Advanced Circuits or ACI), headquartered in Aurora, Colorado, is a provider of prototype, quick-turn and volume production rigid printed circuit boards, or PCBs , throughout the United States. PCBs are a vital component of virtually all electronic products. The prototype and quick-turn portions of the PCB industry are characterized by customers requiring high levels of responsiveness, technical support and timely delivery. We made loans to and purchased a controlling interest in Advanced Circuits, on May 16, 2006, for approximately $81.0 million. We currently own 69.4% of the outstanding stock of Advanced Circuits on a primary and fully diluted basis.

American Furniture

AFM Holding Corporation (American Furniture or AFM) headquartered in Ecru, Mississippi, is a leader in the manufacturing of low-cost upholstered stationary and motion furniture, including sofas, loveseats, sectionals, recliners and complementary products to the promotional furniture market. We made loans to and purchased a controlling interest in AFM on August 31, 2007 for approximately $97.0 million. We currently own approximately 99.9% of AFM s outstanding stock on a primary basis and fully diluted basis.

Arnold

AMT Acquisition Corporation (Arnold or Arnold Magnetics), headquartered in Rochester, NY, with nine additional facilities worldwide, is a manufacturer of engineered, application specific permanent magnets. Arnold Magnetics products are used in applications such as general industrial, reprographic systems, aerospace and defense, advertising and promotional, consumer and appliance, energy, automotive and medical technology. Arnold Magnetics is the largest U.S. manufacturer of engineered magnets as well as only one of two domestic producers to design, engineer and manufacture rare earth magnetic solutions. We made loans to, and purchased a controlling interest in Arnold on March 5, 2012 for approximately $128.8 million. We currently own 96.7% of the outstanding stock of Arnold on a primary basis and 87.2% on a fully diluted basis.

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Tridien

Anodyne Medical Device, Inc. (Anodyne , which was rebranded as Tridien in September 2010) headquartered in Coral Springs, Florida, is a leading designer and manufacturer of powered and non-powered medical therapeutic support services and patient positioning devices serving the acute care, long-term care and home health care markets. Tridien is one of the nation s leading designers and manufacturers of specialty therapeutic support surfaces and is able to manufacture products in multiple locations to better serve a national customer base. We made loans to and purchased a controlling interest in Tridien from CGI on August 1, 2006 for approximately $31.0 million. We currently own 81.3% of the outstanding capital stock on a primary basis and 66.5% on a fully diluted basis.

Our businesses also represent our operating segments. See Our Businesses and Note F Operating Segment Data to our Consolidated Financial Statements for further discussion of our businesses as our operating segments.

Tax Reporting

Information returns will be filed by the Trust and the Company with the IRS, as required, with respect to income, gain, loss, deduction and other items derived from the Company s activities. The Company has and will file a partnership return with the IRS and intends to issue a Schedule K-1 to the trustee. The trustee intends to provide information to each holder of shares using a monthly convention as the calculation period. For 2013, and future years, the Trust has, and will continue to file a Form 1065 and issue Schedule K-1 to shareholders. For 2013, we delivered the Schedule K-1 to shareholders within the same time frame as we delivered the schedule to shareholders for the 2012 and 2011 taxable year. The relevant and necessary information for tax purposes is readily available electronically through our website. Each holder will be deemed to have consented to provide relevant information, and if the shares are held through a broker or other nominee, to allow such broker or other nominee to provide such information as is reasonably requested by us for purposes of complying with our tax reporting obligations.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC Forms S-1 and S-3 under the Securities Act, and Forms 10-Q, 10-K, and 8-K under the Exchange Act, which include exhibits, schedules and amendments. In addition, copies of such reports are available free of charge that can be accessed indirectly through our website http://www.compassdiversifiedholdings.com and are available as soon as reasonably practicable after such documents are electronically filed or furnished with the SEC.

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1) CGI and its affiliates beneficially own approximately 16.4% of the Trust shares and is our single largest holder. Mr. Offenberg is not a director, officer or member of CGI or any of its affiliates.
2) 53.6% owned by certain members of our Manager. Mr. Day and CGI are non-managing members.
3) Mr. Offenberg is a partner of this entity.
4) The Allocation Interests, which carry the right to receive a profit allocation, represent less than 0.1% equity interest in the Company.

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Our Manager

Our Manager, CGM, has been engaged to manage the day-to-day operations and affairs of the Company and to execute our strategy, as discussed below. Our management team has worked together since 1998. Collectively, our management team has extensive experience in acquiring and managing small and middle market businesses. We believe our Manager is unique in the marketplace in terms of the success and experience of its employees in acquiring and managing diverse businesses of the size and general nature of our businesses. We believe this experience will provide us with an advantage in executing our overall strategy. Our management team devotes a majority of its time to the affairs of the Company.

We have entered into a management services agreement, (the Management Services Agreement or MSA) pursuant to which our Manager manages the day-to-day operations and affairs of the Company and oversees the management and operations of our businesses. We pay our Manager a quarterly management fee for the services it performs on our behalf. In addition, certain members of our Manager receive a profit allocation with respect to its Allocation Interests in us. All of the Allocation Interests in us are owned by Sostratus LLC. See Part III, Item 13 Certain Relationships and Related Transactions for further descriptions of the management fees and profit allocations.

The Company s Chief Executive Officer and Chief Financial Officer are employees of our Manager and have been seconded to us. Neither the Trust nor the Company has any other employees. Although our Chief Executive Officer and Chief Financial Officer are employees of our Manager, they report directly to the Company s board of directors. The management fee paid to our Manager covers all expenses related to the services performed by our Manager, including the compensation of our Chief Executive Officer and other personnel providing services to us. The Company reimburses our Manager for the salary and related costs and expenses of our Chief Financial Officer and his staff, who dedicate substantially all of their time to the affairs of the Company.

See Part III, Item 13, Certain Relationships and Related Party Transactions and Director Independence.

Market Opportunity

We acquire and actively manage small and middle market businesses. We characterize small to middle market businesses as those that generate annual cash flows of up to $60 million. We believe that the merger and acquisition market for small to middle market businesses is highly fragmented and provides opportunities to purchase businesses at attractive prices. We believe that the following factors contribute to lower acquisition multiples for small and middle market businesses:

- there are fewer potential acquirers for these businesses;
- third-party financing generally is less available for these acquisitions;
- sellers of these businesses frequently consider non-economic factors, such as continuing board membership or the effect of the sale on their employees; and
- these businesses are less frequently sold pursuant to an auction process.

Frequently opportunities exist to augment existing management at such businesses and improve the performance of these businesses upon their acquisition. In the past, our management team has acquired businesses that were owned by entrepreneurs or large corporate parents. In these cases, our management team has frequently found that there have been opportunities to further build upon the management teams of acquired businesses beyond those that existed at the time of acquisition. In addition, our management team has frequently found that financial reporting and management information systems of acquired businesses may be improved, both of which can lead to improvements in earnings and cash flow. Finally, because these businesses tend to be too small to have their own corporate development efforts, opportunities frequently exist to assist these businesses as they pursue organic or external growth strategies that were often not pursued by their previous owners.

Our Strategy

We have two primary strategies that we use in order to provide distributions to our shareholders and increase shareholder value. First, we focus on growing the earnings and cash flow from our acquired businesses. We believe that the scale and scope of our businesses give us a diverse base of cash flow upon which to further build. Second, we identify, perform due diligence on, negotiate and consummate additional platform acquisitions of small to middle market businesses in attractive industry sectors in accordance with acquisition criteria established by the board of directors

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Management Strategy

Our management strategy involves the proactive financial and operational management of the businesses we own in order to increase cash flow, pay distributions to our shareholders and increase shareholder value. Our Manager oversees and supports the management teams of each of our businesses by, among other things:

- recruiting and retaining talented managers to operate our businesses using structured incentive compensation programs, including non-controlling equity ownership, tailored to each business;
- 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 growth strategies;
- identifying and working with management to execute attractive external growth and acquisition opportunities;
- assisting management in controlling and right-sizing overhead costs, particularly in the current challenging economic environment; and
- forming strong subsidiary level boards of directors to supplement management in their development and implementation of strategic goals and objectives.

Specifically, while our businesses have different growth opportunities and potential rates of growth, we expect our Manager to work with the management teams of each of our businesses to increase the value of, and cash generated by, each business through various initiatives, including:

- making selective capital investments to expand geographic reach, increase capacity, or reduce manufacturing costs of our businesses;
- investing in product research and development for new products, processes or services for customers;
- improving and expanding existing sales and marketing programs;
- pursuing reductions in operating costs through improved operational efficiency or outsourcing of certain processes and products; and
- consolidating or improving management of certain overhead functions.

Our businesses typically acquire and integrate complementary businesses. We believe that complementary add-on acquisitions improve our overall financial and operational performance by allowing us to:

leverage manufacturing and distribution operations;

leverage branding and marketing programs, as well as customer relationships;

add experienced management or management expertise;

increase market share and penetrate new markets; and

realize cost synergies by allocating the corporate overhead expenses of our businesses across a larger number of businesses and by implementing and coordinating improved management practices.

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We incur third party debt financing almost entirely at the Company level, which we use, in combination with our equity capital, to provide debt financing to each of our businesses and to acquire additional businesses. FOX maintains its own credit facility. Refer to Liquidity and Capital Resources FOX Credit Facility. We believe this financing structure is beneficial to the financial and operational activities of each of our businesses by aligning our interests as both equity holders of, and lenders to, our businesses, in a manner that we believe is more efficient than each of our businesses borrowing from third-party lenders.

Acquisition Strategy

Our acquisition strategy involves the acquisition of businesses that we expect to produce stable and growing earnings and cash flow. In this respect, we expect to make acquisitions in industries other than those in which our businesses currently operate if we believe an acquisition presents an attractive opportunity. We believe that attractive opportunities will continue to present themselves, as private sector owners seek to monetize their interests in longstanding and privately-held businesses and large corporate parents seek to dispose of their non-core operations.

Our ideal acquisition candidate has the following characteristics:

- is an established North American based company;
- maintains a significant market share in defensible industry niche (i.e., has a reason to exist);
- has a solid and proven management team with meaningful incentives;
- has low technological and/or product obsolescence risk; and
- maintains a diversified customer and supplier base.

We benefit from our Manager s ability to identify potential diverse acquisition opportunities in a variety of industries. In addition, we rely upon our management team s experience and expertise in researching and valuing prospective target businesses, as well as negotiating the ultimate acquisition of such target businesses. In particular, because there may be a lack of information available about these target businesses, which may make it more difficult to understand or appropriately value such target businesses, on our behalf, our Manager:

- engages in a substantial level of internal and third-party due diligence;
- critically evaluates the target management team;
- identifies and assesses any financial and operational strengths and weaknesses of the target business;
- analyzes comparable businesses to assess financial and operational performances relative to industry competitors;
- actively researches and evaluates information on the relevant industry; and

thoroughly negotiates appropriate terms and conditions of any acquisition.

The process of acquiring new businesses is both time-consuming and complex. Our management team historically has taken from two to twenty-four months to perform due diligence, negotiate and close acquisitions. Although our management team is always at various stages of evaluating several transactions at any given time, there may be periods of time during which our management team does not recommend any new acquisitions to us. Even if an acquisition is recommended by our management team, our board of director s may not approve it.

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A component of our acquisition financing strategy that we utilize in acquiring the businesses we own and manage is to provide both equity capital and debt capital, raised at the parent company level largely through our existing credit facility, to close acquisitions. We believe, and it has been our experience, that having the ability to finance our acquisitions with capital resources raised by us, rather than negotiating separate third party financing, provides us with an advantage in successfully acquiring attractive businesses by minimizing delay and closing conditions that are often related to acquisition-specific financings. In addition, our strategy of providing this intercompany debt financing within the capital structure of the businesses we acquire and manage allows us the ability to distribute cash to the parent company through monthly interest payments and amortization of principle on these intercompany loans.

Upon acquisition of a new business, we rely on our Manager s experience and expertise to work efficiently and effectively with the management of the new business to jointly develop and execute a successful business plan.

We believe our financing structure, in which both equity and debt capital are raised at the Company level, allows us to acquire businesses without transaction specific financing and is conducive to our ability to consummate transactions that may be attractive in both the short- and long-term.

In addition to acquiring businesses, we sell those businesses that we own from time to time when attractive opportunities arise that outweigh the value that we believe we will be able to bring such businesses consistent with our long-term investment strategy. As such, our decision to sell a business is based on our belief that doing so will increase shareholder value to a greater extent than through our continued ownership of that business. Upon the sale of a business, we may use the proceeds to retire debt or retain proceeds for acquisitions or general corporate purposes. We do not expect to make special distributions at the time of a sale of one of our businesses; instead, we expect to pay shareholder distributions over time solely through the earnings and cash flows of our businesses.

Since our inception in May 2006, we have recorded gains on sales of our businesses of approximately $198 million. We sold Crosman Acquisition Company (Crosman) in January 2007, Aeroglide Company (Aeroglide) and Silvue Technologies Group, Inc. (Silvue) in June 2008, Staffmark Holdings Inc. (Staffmark) in 2011 and HALO Branded Solutions (HALO) in 2012. We sold Crosman, our majority owned recreational products company for approximately $143 million and our net proceeds and gain on sale were approximately $110 million and $36 million, respectively. We sold Aeroglide, our majority owned designer and manufacturer of industrial drying and cooling equipment for approximately $95 million and our net proceeds and gain on sale were approximately $78 million and $34 million, respectively. We sold Silvue, our majority owned developer and producer of proprietary, high performance liquid coating systems for approximately $95 million and our net proceeds and gain on sale were approximately $64 million and $39 million, respectively. We sold Staffmark, our majority-owned provider of temporary staffing solutions subsidiary for approximately $295 million and our net proceeds and gain on sale were approximately $217 million and $89 million, respectively We sold HALO, our majority owned fulfillment provider of promotional items for $76.5 million and our net proceeds upon sale were approximately $66.0 million and our loss on sale was approximately $0.5 million.

On August 13, 2013 FOX completed an initial public offering of its common stock. We sold a portion of our shares of common stock in FOX in this offering and received net proceeds totaling $80.9 million. Our ownership position was diluted as a result of the offering. We currently own 53.9% of FOX on a primary basis and 48.9% on a fully diluted basis. No gain was reflected as a result of the sale of our FOX shares because our majority ownership classification of FOX did not change.

Strategic Advantages

Based on the experience of our management team and its ability to identify and negotiate acquisitions, we believe we are well-positioned to acquire additional businesses. Our management team has strong relationships with business brokers, investment and commercial bankers, accountants, attorneys and other potential sources of acquisition opportunities. In addition, our management team also has a successful track record of acquiring and managing small to middle market businesses in various industries. In negotiating these acquisitions, we believe our management team has been able to successfully navigate complex situations surrounding acquisitions, including corporate spin-offs, transitions of family-owned businesses, management buy-outs and reorganizations.

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Our management team has a large network of approximately 2,000 deal intermediaries who we expect to expose us to potential acquisitions. Through this network, as well as our management team s proprietary transaction sourcing efforts, we have a substantial pipeline of potential acquisition targets. Our management team also has a well-established network of contacts, including professional managers, attorneys, accountants and other third-party consultants and advisors, who may be available to assist us in the performance of due diligence and the negotiation of acquisitions, as well as the management and operation of our acquired businesses.

Finally, because we intend to fund acquisitions through the utilization of our Revolving Credit Facility, we expect to minimize the delays and closing conditions typically associated with transaction specific financing, as is typically the case in such acquisitions. We believe this advantage can be a powerful one, especially in a tight credit environment, and is highly unusual in the marketplace for acquisitions in which we operate.

Valuation and Due Diligence

When evaluating businesses or assets for acquisition, our management team performs a rigorous due diligence and financial evaluation process. In doing so, we evaluate the operations of the target business as well as the outlook for the industry in which the target business operates. While valuation of a business is, by definition, a subjective process, we define valuations under a variety of analyses, including:

- discounted cash flow analyses;
- evaluation of trading values of comparable companies;
- expected value matrices; and
- examination of comparable recent transactions.

One outcome of this process is a projection of the expected cash flows from the target business. A further outcome is an understanding of the types and levels of risk associated with those projections. While future performance and projections are always uncertain, we believe that with detailed due diligence, future cash flows will be better estimated and the prospects for operating the business in the future better evaluated. To assist us in identifying material risks and validating key assumptions in our financial and operational analysis, in addition to our own analysis, we engage third-party experts to review key risk areas, including legal, tax, regulatory, accounting, insurance and environmental. We also engage technical, operational or industry consultants, as necessary.

A further critical component of the evaluation of potential target businesses is the assessment of the capability of the existing management team, including recent performance, expertise, experience, culture and incentives to perform. Where necessary, and consistent with our management strategy, we actively seek to augment, supplement or replace existing members of management who we believe are not likely to execute our business plan for the target business. Similarly, we analyze and evaluate the financial and operational information systems of target businesses and, where necessary, we enhance and improve those existing systems that are deemed to be inadequate or insufficient to support our business plan for the target business.

Financing

We have a Credit Facility with a group of lenders led by TD Securities that we entered into on October 27, 2011 and further amended on April 2, 2012, April 3 and August 6, 2013. The Credit Facility provides for a Revolving Credit Facility totaling $320 million, subject to borrowing base restrictions, and a Term Loan Facility totaling $279.8 million at December 31, 2013. The Term Loan Facility requires quarterly payments of $0.7 million, with a final payment of the outstanding principal balance in October 2017. The Revolving Credit Facility matures in April 2017.

The Credit Facility provides for letters of credit under the Revolving Credit Facility in an aggregate face amount not to exceed $100 million outstanding at any time. At no time may the (i) aggregate principal amount of all amounts outstanding under the Revolving Credit Facility, plus (ii) the aggregate amount of all outstanding letters of credit, exceed the borrowing availability under the Credit Facility. At December 31, 2013, we had outstanding letters of credit totaling approximately $1.6 million. The borrowing availability under the Revolving Credit Facility at December 31, 2013 was approximately $318 million.

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The Credit Facility is secured by all of the assets of the Company, including all of its equity interests in, and loans to, its subsidiaries. (See Note I to the consolidated financial statements for more detail regarding our Credit Facility).

We intend to finance future acquisitions through our Revolving Credit Facility, cash on hand and, if necessary, additional equity and debt financings. We believe, and it has been our experience, that having the ability to finance our acquisitions with the capital resources raised by us, rather than negotiating separate third party financing specifically related to the acquisition of individual businesses, provides us with an advantage in acquiring attractive businesses by minimizing delay and closing conditions that are often related to acquisition-specific financings. In this respect, we believe that in the future, we may need to pursue additional debt or equity financings, or offer equity in Holdings or target businesses to the sellers of such target businesses, in order to fund multiple future acquisitions.

Our Businesses

We categorize the businesses we own into two separate groups of businesses (i) branded products businesses and, (ii) niche industrial businesses. Branded products businesses are characterized as those businesses that we believe capitalize on a valuable brand name in their respective market sector. We believe that our branded products businesses are leaders in their particular product category. Niche industrial businesses are characterized as those businesses that focus on manufacturing and selling particular products within a specific market sector. We believe that our niche industrial businesses are leaders in their specific market sector.

During the three years ended December 31, 2013, 2012 and 2011, 61.5%, 62.1% and 60.5% of net sales are attributable to our branded products businesses with the remaining net sales attributable to our niche industrial businesses.

Branded Products Businesses

CamelBak

Overview

CamelBak, headquartered in Petaluma, California, is a diversified hydration and personal protection platform, offering products for outdoor, recreation and military applications. CamelBak offers a broad range of recreational / military hydration packs, reusable water bottles, specialized military gloves and performance accessories. As the leading supplier of hydration products to specialty outdoor, cycling and military retailers, CamelBak maintains the leading market share position in recreational markets for hands-free hydration packs and the leading market share position for reusable water bottles in specialty channels. CamelBak is also dominant supplier of hydration systems to the military, with a leading market share in post-issue hydration systems. Over its more than 20-year history, CamelBak has developed a reputation as the preferred supplier for the hydration needs of the most demanding athletes and warfighters. Across its markets, CamelBak is respected for its innovation, leadership and authenticity.

For the fiscal years ended December 31, 2013, 2012 and 2011, CamelBak contributed net sales of approximately $139.9 million, $157.6 million and $42.7 million (from date of acquisition), respectively, and operating income of $17.9 million and $25.5 million in 2013 and 2012, respectively, and an operating loss of $6.8 million in 2011. CamelBak had total assets of $241.0 million, $259.1 million and $262.0 million at December 31, 2013, 2012 and 2011, respectively. Net sales from CamelBak represented 14.2%, and 17.8% of our consolidated net sales in the years ended December 31, 2013 and 2012, respectively, and 7.0% of our consolidated net sales in 2011.

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History of CamelBak

Founded in 1989, CamelBak initially gained a following among mountain bikers in the early 1990 s through its first product, the ThermoBak . As CamelBak grew among this base of users, its products continued to gain acceptance within other arenas where participants needed easy access to water to achieve optimal performance in their activity.

The hands-free feature of CamelBak s products proved to be appealing to outdoor sports enthusiasts and critical to others, including the U.S. Military. After successfully developing the hands-free hydration category, CamelBak in 2006, recruited new management, including industry veteran and Board member Sally McCoy in the role of CEO, and acquired Southwest Motorsports (since rebranded CamelBak Gloves). With a strong market presence in hydration packs, the management team focused on continued expansion into adjacent markets and developing and executing on a consistent strategy of innovation. Since this time, CamelBak has steadily grown sales and earnings and has enhanced its relationships with suppliers to strengthen its supply chain, reengineered its product distribution capabilities and tightly controlled operating expenses to match the needs of the business.

In 2006, CamelBak expanded its recreational business into the fast growing bottle category. CamelBak s initial launch of the innovative Better Bottle was followed by numerous successful bottle product introductions for everyday users, road cyclists, kids and recreational enthusiasts, including eddy and the podium collection . CamelBak was first to market with an entirely BPA-free plastic bottle product line.

We purchased a majority interest in CamelBak on August 24, 2011.

Industry

Recreation Market With over 100 million participants, the outdoor recreational activity market represents a large, attractive and stable group of consumers. CamelBak s legacy products have historically been focused on a subset of this group, consisting of cyclists, mountain bikers and other passionate outdoor enthusiasts who tend to be loyal and consistent buyers of premium and performance-enhancing offerings. CamelBak s core customers are typically outdoor enthusiasts who exhibit very high participation rates and frequent purchasing behavior. In addition to CamelBak s legacy consumer group, CamelBak has increasingly used its brand authenticity, credibility and broadening product portfolio to reach athletes in adjacent sporting activities.

Long-term growth in the hydration and personal protection industry is driven by a number of factors. Consumer recognition of personal hydration s importance to health and well-being has been a growing and enduring trend, reflected by the proliferation of bottled water and functional beverages. The importance of water as a healthy choice has become even more prominent as a key component to healthy living. Further, people are increasingly aware of the effects of even minimal dehydration on multiple functions of the body, including brain function, digestion, metabolism and skin health. CamelBak s products have proven their ability to provide greater hydration. An independent study conducted by Pepperdine University found that people utilizing CamelBak s Bite Valve technology consume 24% more than those using single serving disposable bottled water or less innovative products. Recently there has been a reduction in disposable bottled water consumption in the U.S., primarily as a result of price and the wide-spread awareness of the negative environmental impact of disposable water bottles. With respect to the environment, the disposable water bottle s environmentally harmful lifecycle is generating significant backlash. We believe the reliance on oil in the production and transportation of the bottles and the fact that over two-thirds of bottles are not recycled is driving consumers to seek alternatives to disposable bottles. Further, there are a number of government mandates forcing the elimination of disposable bottles. Nationwide, local governments are enacting these curbs to combat the cost and waste of disposable bottles. In recent years, governments of all levels have received scrutiny for fiscal irresponsibility and a number of municipalities have launched initiatives focused on curbing disposable water bottles in their communities. In 2006, a San Francisco investigation revealed that the city spent over $500,000 per year on bottled water. This revelation triggered a nationwide analysis of government spending on bottled water with public funds. In 2013 Concord, Massachusetts prohibited the sale of plastic water bottles.

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U.S. Government & Military Market The military acquisition process has responded to the demands of modern warfare which require forces to be more agile and flexible than ever before. This trend has been highlighted by the increased use of multiple funding and procurement mechanisms such as Rapid Fielding Initiatives (RFI) and Joint Urgent Operational Needs Statement (JUONS). These programs provide funding for mission critical operational needs such as IED detection and defeat and lifesaving warfighter equipment purchases without the normal bid and proposal process that can take months and even years to get equipment in the hands of the end user. In addition to responsive procurement contracts such as the RFI, the military has continued a gradual decentralization of purchasing which allows decision makers closer to the front line to select what specific items need to be acquired for a unit. Unit and individual equipment purchases are made primarily through U.S. Government Services Administration (GSA) contracts or at military exchange and supply locations. Warfighters and their families frequently purchase supplemental gear that is superior to standard issue products. CamelBak is well positioned to benefit from continued decentralized purchasing.

Products and Services

CamelBak focuses on offering high quality, industry leading hydration and performance equipment. CamelBak s products fall into four key categories:

Hydration Packs CamelBak s heritage and legacy is in hydration packs and CamelBak maintains the broadest and deepest line of packs in the industry. CamelBak s core hydration product consists primarily of an easily cleaned and filled polyurethane reservoir, a connecting tube and a self-sealing mouthpiece, or bite-valve, which facilitates simple and intuitive drinking. The CamelBak hydration system allows users to conveniently carry one to three liters of water, which can be easily accessed without interruption of the user s task or activity. The system is most often sold as an integrated backpack or waist-pack, which is uniquely designed for a specific use, such as biking, running or military applications. Hydration packs represented 44%, 50% and 44% of CamelBak s gross sales in the twelve months ended December 31, 2013, 2012 and 2011, respectively.

Recreation Packs

Having created the hands-free hydration category, CamelBak continues to be the dominant market leader in the recreational sector since its inception. After starting with a mountain biking product, CamelBak developed a host of other types of biking hydration packs that are designed to match specific types of biking. CamelBak sells classic cycling packs that are lightweight and streamlined. CamelBak also sells larger more durable packs designed for long off-road rides and a Downhill/Freeride line designed for specific types of mountain biking activities. By starting with a focused line and expanding it to cover many different types of biking activities, CamelBak has created the deepest, broadest line of hydration packs in the industry.

As CamelBak extended its packs to cover different biking niches, top athletes from other outdoor sports began to clamor for product. To meet this demand, CamelBak has created lines that cater to the diverse set of outdoor athletes:

- Hike / Alpine consists of lightweight packs with extra back panel padding and air flow for breathability
- Ski / Snowboard has attachments for helmets, boards and shovels
- Multi-sport are ultra-light and include wearable hydration units for use in almost any athletic activity
- Run includes hip packs designed to hold as many as four water bottles in a remarkably stable set up

These customized solutions have all been developed with an eye towards enhancing the performance of each activity s respective athletes. That customization is part of the innovative difference that allows CamelBak to differentiate itself in a competitive market.

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Military Packs

CamelBak sells a wide selection of category leading military packs. Management estimates CamelBak has in excess of 85% market share in post-issue military hydration packs. It is also one of only a few brands sold to U.S. Military personnel that is allowed to prominently display the brand name on the outside of the product. The packs include features such as easy armor integration and extreme durability appropriate for use in the harshest conditions.

Bottles In 2006, CamelBak parlayed its credibility in hands-free hydration and expanded into bottles. CamelBak introduced the Better Bottle , subsequently replaced by eddy , which incorporated a number of features that quickly established it as a best-in-class hydration solution. These features include: (i) the patented spill-proof Bite Valve, (ii) the first insulated stainless steel water bottle and (iii) in 2008, the first all BPA-free line of plastic water bottles.

The success of the Better Bottle led CamelBak to design a complete line of bottles that would mirror the pack line s legacy of customization. CamelBak developed a line for children, which included bite valves that have to be removed from the inside of the bottle to prevent choking. CamelBak also released the Podium® insulated and non-insulated line, which includes features such as the patented Jet Valve .

CamelBak s bottle offering has continued to evolve to meet the specific demands of consumers. These demands have included activity-based needs such as customized cycling bottles. They have also included health concerns, including the consumer backlash against BPA. CamelBak recognized this concern early and became the first to offer an entire line of BPA-free hard plastic bottles in May of 2008.

CamelBak s bottle offering Groove , provides users the ability to filter water in any place at any time through its integrated straw assembly. Users simply fill the bottle with tap water, screw the cap on and start sipping. The integrated plant-based carbon filter reduces chlorine taste and odors found in tap water thus improving taste and eliminating the desire to purchase disposable bottles of water.

In 2013 CamelBak introduced Chute . Chute is a BPA-Free reusable bottle that is durable for the outdoor conditions, leak proof for safe transport and features an ergonomic, high flow spout that provides rapid hydration.

Bottles represented approximately 42%, 34% and 31% of CamelBak s gross sales for the twelve months ended December 31, 2013, 2012 and 2011, respectively.

Gloves The evolution of CamelBak gloves parallels that of the pack business in the Government / Military channel. Initially created for pit crews in the auto racing market, members of elite squads who became aware of the product were impressed with its dexterity and durability. Following this unofficial endorsement, members of the U.S. Armed Forces began requesting CamelBak gloves. The gloves are highly-technical and difficult to produce, with some styles requiring 44 individual pieces for the assembly of the final product. Today, CamelBak gloves are exclusively a Government / Military product, as their technical characteristics exceed that which a non-military user would desire. Gloves represented approximately 3%, 6% and 14% of CamelBak s gross sales for the twelve months ended December 31, 2013, 2012 and 2011, respectively. The reduction in Glove sales over the past three years is consistent with the reduction of deployed U.S. troops.

Accessories CamelBak offers various accessories to complement its hydration systems. Accessories are available for each product line and include items that are made to enhance hydration performance and others for maintenance or replacement parts.

CamelBak s goal is to reinvent the way that individual athletes, warfighters and every day users hydrate and perform. To that aim, CamelBak has developed a number of new products that help to further enhance the already innovative way that its products deliver water:

Elixir is a flavored electrolyte supplement for performance athletes. It s sugar free and works well with reusable reservoirs and bottles as it helps athletes with their hydration needs.

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All Clear is a portable microbiological UV water purifier. It is easy to use with UV light built into the cap that attaches to the bottle. It is fast, completing a cycle in 60 seconds. And it s proven effective to U.S. EPA guide standards.

Mantra is a naturally flavored powdered drink pack that enhances your water with electrolytes, antioxidants and vitamins. It is sweetened with Stevia and colored with vegetables and fruit juices. It is designed to be used with reusable bottles.

CamelBak products are known for their high quality and durability. CamelBak provides products to help maintain this durability and offers replacement parts in the rare instance that the products cease to perform at optimal levels:

Reservoir cleaning kits are designed to optimally clean the reservoirs that are inside of each pack. Properly cleaning and drying the reservoirs promotes longevity.

Replacement reservoirs are made for each pack. This ensures that in the rare case that a reservoir must be replaced, the athlete or warfighter does not need to replace the entire pack but can easily swap out the necessary components. Many users also like to have multiple reservoirs.

In addition to recreational accessories, CamelBak offers a specialized line associated with its military products. These accessories help enhance the performance of military products by adding resistance to chemical and biological agents or allowing connection to standard issue gas masks. For example, the HydroLink allows warfighters to replace their bite valve with a connector, allowing them to hydrate while wearing their gas mask. Accessories accounted for approximately 11%, 10% and 11% of CamelBak s gross sales for the twelve months ended December 31, 2013, 2012 and 2011, respectively.

Competitive Strengths

Leading Brand Recognition & Market Share CamelBak believes it has a #1 market share in each of the following areas: (i) recreational hands-free hydration packs, (ii) reusable water bottles for specialty channels and (iii) post-issue hydration packs for the U.S. military. CamelBak enjoys outstanding awareness and a reputation for superior performance with consumers, retailers and warfighters. For example, within the Armed Forces, CamelBak is one of only a few companies allowed to prominently display its brand name on active military products.

Preferred Partner CamelBak is a preferred partner to leading retailers and the military. CamelBak is a supplier to leading national specialty and sporting goods retailers, including REI, EMS, Dick s Sporting Goods and The Sports Authority. In addition, CamelBak does business in over 400 military retail exchanges and is an official military supplier which requires a rigorous application and certification process.

Business Strategies

Introducing Technically Superior Products in Core Categories CamelBak s core categories include hydration packs, bottles and warfighter protection products, and CamelBak s mission is to continuously reinvent the way people hydrate and perform. To meet this goal, CamelBak will continue to create innovative, technical solutions that exceed the demands of its customers. CamelBak s product pipeline for its core customers remains robust.

Expanding Product Suite in Everyday Hydration to Reach New Customers and Channels The CamelBak brand is synonymous with personal hydration, and this credibility grants CamelBak permission to enter broader aspects of hydration. CamelBak is committed to continuing to broaden its portfolio of personal hydration solutions to reach new customers, and, under the leadership of its CEO, has proven that it can extend its brand beyond hard-core athletes. For example, Camelback has successfully reached new consumers and channels through its water bottle product line, which offers the features desired by its core customer base of performance athletes to the everyday customer shopping at Target. As CamelBak continues to expand its relevance to everyday users, its authenticity will allow it to enter other areas such as purification and other products.

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Broadening International Opportunities Management believes there is significant potential to expand its international sales in the consumer market. Currently, CamelBak s recreational business is sold through a network of approximately 82 foreign distributors. With improved distribution in the recreational market, CamelBak would have a number of opportunities to expand throughout Europe, Asia and South America.

Penetrating Select Areas of Specialty Retail CamelBak aspires to build a product portfolio that shapes the way consumers and warfighters perform across all activities. CamelBak has made significant strides introducing new products that target activities outside of its core biking and hiking audience. Past examples include multi-sport enthusiasts and runners. CamelBak targeted the multi-sport category with highly functional wearable hydration, which consists of a wearable shirt with built in hydration pack that allows enthusiasts to hydrate hands-free without a traditional pack.

CamelBak keeps an open dialogue with the athletes it endorses and is thus able to gain real-time feedback on the products it produces. By learning the needs of these consumers and others, CamelBak is able to identify other areas to develop ground-breaking hydration solutions. As CamelBak continues to innovate and create new products to serve the needs of more diverse consumers, it will further grow sales to these retailers. As a sports subculture brand, CamelBak is able to migrate to different activities without losing the authenticity and credibility it has developed as a leading product innovator. As examples, skiers and kayakers alike have adopted the brand as their own without even realizing that other sports enthusiasts have done the same.

CamelBak launched its own direct to consumer E-Commerce site during the fourth quarter of 2012. The site initially offered bottles and accessories along with water packs. In 2013, the site expanded to offer more hydration packs as well as purification (All-Clear), and drink (Elixir) and (Mantra) items.

Research and Development

CamelBak s hydration products are among the most technically advanced and rigorously engineered in their markets. They are specifically designed to function and perform under diverse and extreme conditions. CamelBak s research and development effort is at the core of its strategy of product innovation and market leadership. CamelBak s products feature a combination of innovative design, high-quality materials, and superb functionality and performance elements and are recognized as being the leaders or among the leaders in all of the market segments in which they participate.

CamelBak has a robust core research and development team, which has collectively over 36 years of combined industry experience. In addition to the core engineering group, a large number of other CamelBak staff members, who also use CamelBak s products, contribute to the research and development effort at various stages. Product development also includes collaborating with customers and field testing. This feedback helps ensure products will meet CamelBak s demanding standards of excellence as well as the constantly changing needs of end users.

CamelBak s research and development activities are supported by state-of-the-art engineering software design tools, integrated manufacturing facilities and a performance testing center equipped to ensure product safety, durability and superior performance. The testing center collects data and tests products prior to and after commercial introduction. Research and development costs (from the date of acquisition) totaled $3.2 million, $3.0 million and $0.8 million during the years 2013, 2012 and 2011, respectively.

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Customers and Distribution channels

CamelBak offers a unique value proposition for its customers. As an innovative subculture sports brand, CamelBak has the authenticity and credibility to defend market share, command premium prices and leverage into new categories. The brand strength allows retailers to hold prices and thus protect margins. Further, CamelBak s Got Your Bak lifetime warranty speaks to the level of quality and customer service offered. CamelBak s products, which are sold domestically and internationally, are segmented into two major end markets: Recreational and Government/Military. CamelBak s powerful product distribution network is comprised of long-standing, entrenched relationships with a diversified set of customers. CamelBak s top ten non-military customers comprised approximately 38%, 30% and 31% of gross sales in the year ended December 31, 2013, 2012 and 2011, respectively CamelBak s largest recreational customer accounted for approximately 12% of gross sales in 2013 and approximately 8% of gross sales in 2012 and 2011. International sales were approximately 22% of gross sales for the year ended December 31, 2013 and 19% for the same period in 2012 and 2011.

Recreational Distribution CamelBak markets its hydration and performance products to several channels in the recreational market. Management estimates that it currently holds in excess of 85% of the market share of the hands-free hydration market. A share this large demonstrates the strength of the brand and the credibility that the products have with consumers. CamelBak invented the category in 1989 and although competitors have introduced a number of similar products, CamelBak has held on to its base.

Recreational Domestic Distribution: The Recreational Domestic Division is focused on product distribution through a variety of retail accounts in the United States. Particular emphasis is placed on premium active lifestyle retailers across a broad spectrum of channels, including camping/outdoor, bike, natural foods, housewares, hunting/fishing, paddle sports and surf/skate.

The division manages approximately 2,600 retail customers with over 10,000 retail storefronts. Current distribution channels range from specialty bicycle, outdoor, paddle sports, hunting stores and catalogs to large outdoor and sporting goods chains that reach the broader market. Importantly, CamelBak has selectively expanded and diversified its distribution channels over time. Today, notable customers include REI, Dick s Sporting Goods, EMS, Target, Whole Foods Market, Academy and The Sports Authority.

CamelBak s entrance into the reusable bottle category in 2006 resulted in a notable broadening of distribution, as CamelBak made the decision to strategically expand into new channels. CamelBak felt it was important to reach an even broader consumer base to further its vision of obsoleting bottled water as the most common way to hydrate. The bottle business has also enabled CamelBak to achieve penetration in the college and corporate sponsorship markets.

Recreational International Distribution: The Recreational International division is focused on product distribution through outdoor, sporting goods and specialty retailers that are managed through local distributors focused on premier retail accounts. CamelBak maintains an office in Europe to provide oversight of distributor performance, market intelligence and limited supplemental marketing support, including event staffing, trade show management, athlete sponsorships, public relations and market/product intelligence gathering. Order scheduling, fulfillment and logistics support for CamelBak s international operations are provided from CamelBak s Petaluma headquarters.

Key international markets include the United Kingdom, Germany, France, Australia, Japan, Canada, Norway and Korea. As is the case in the United States, the CamelBak brand is widely recognized and respected by enthusiasts and maintains a dominant market share.

Military Retail Exchange Distribution Military retail exchanges, including the Army and Air Force Exchange Service (AAFES), the Navy Exchange Service Command (NEXCOM) and the Marine Corps Exchange (MXC), are essentially large retail chains serving the military community. Military personnel, veterans and their families are strongly incentivized to shop at exchanges given that the store markup is typically less than the off base markup from other retailers, exchanges do not charge sales tax and a portion of the exchanges earnings often go towards funding expenditures related to the military s morale, welfare and recreation. Furthermore, the exchanges provide an added benefit to consumers, given the convenience they provide to troops deployed in nearby locations.

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The military retail exchanges represent large distribution platforms extending across many different countries. CamelBak sells through over 400 locations. CamelBak pioneered the adoption of hands-free hydration systems by U.S. and foreign militaries and is today, we believe, the preferred brand of warfighters. As a result, CamelBak has dominant market share throughout the military retail channel. CamelBak is one of AAFES largest vendors and has a strong, long-term relationship with the retailer.

Government / Military Distribution In the Government / Military division, CamelBak sells products and accessories related to both hydration and performance. CamelBak continues to expand its Government / Military market by increasing penetration into foreign governments and militaries. A key component of U.S. foreign policy is the replacement of some deployed troops with those of foreign militaries. CamelBak s success in the U.S. Military carries tremendous credibility abroad, which has enabled CamelBak to achieve meaningful adoption outside the U.S.

CamelBak sells its products through a range of domestic Government / Military channels:

GSA: The Government Services Administration (GSA) provides a channel for all federal government agencies and government end-users to procure items easily. All products sold through the GSA must be pre-approved to get listed on GSA schedules. Once products are listed, thousands of Government / Military units and agencies purchase through this channel knowing that all pricing and legal obligations have already been negotiated and approved.

Direct Department of Defense Procurement: The U.S. Military will, from time to time, request for proposal a large amount of a given product. In addition, this request can oftentimes require that the product be manufactured with domestic content and other various specific rules. As it relates to CamelBak s business, CamelBak calls such direct contracts DFAR business. This is patterned after the Defense Federal Acquisition Regulation (DFAR) set of rules used by the government. Selling through the direct government channel entails abiding by specific sourcing guidelines and responding to a solicitation. Typically, a branch of the military will identify a need, issue a solicitation and multiple parties will bid to win the contract. While these orders are intermittent and often large, CamelBak has developed a strong supply chain to deal with these types of orders.

International Government / Military Distribution International Sales in the Government / Military is driven by ordinary replenishment and large solicitations that occur on an irregular basis to meet the equipment needs of each individual country. CamelBak has consistently participated in these solicitations in the past with significant success.

Sales and Marketing

CamelBak approaches marketing from a unique point of view that is meant to inspire customers. CamelBak is engaged in small endorsement deals that provide gear to actual users as well as athletes who bike, climb and hike professionally as opposed to entering into large multi-year contracts. Second, CamelBak s marketing campaign uses photographs and videos shot from a user s perspective. This photographic style encourages the consumers viewing the ad to imagine they are engaging in the activity shown. This experience serves to promote the inspirational nature of CamelBak s brand by liberating people to go further. CamelBak s sales are typically higher in the spring and summer months as this corresponds with warmer weather in the Northern Hemisphere and an increase in hydration related activities.

Marketing CamelBak uses a two pronged approach to marketing:

CamelBak has set out to aggressively pursue new users and expand its customer base while remaining true to its authentic, innovative ideals. Given the customization that has occurred across its product lines, CamelBak created a unique, highly targeted marketing plan to acquire new users for specific products. In the case of Groove , CamelBak set out to expand its customer base of 25-45 year old women. To that end, CamelBak designed print and web ads with a message that appeals more directly to this group and placed these advertisements in the appropriate women s lifestyle magazines. CamelBak also has a strong presence on the internet and uses instructional videos and direct marketing through social media sites such as Facebook.

CamelBak makes a point to continue cultivating the passionate consumer base that already admires and respects CamelBak and its products. A recent example is the release of the Antidote Reservoir. CamelBak uses a unique marketing approach for different target users. Since these products are geared towards passionate outdoor athletes, CamelBak placed ads in forums including: (i) bicycling and mountain bike magazines, (ii) backpacking and hiking magazines and (iii) internet and social media sites that cater to active men and women.

Sales Organization CamelBak s in-house sales team consists of dedicated sales people and customer service employees. The sales organization is strategically aligned by product category/sales channel. The sales managers split coverage for major national accounts with one team responsible for maintaining and growing sales to established channels and the other for business to larger national retailers and natural foods stores. With an average tenure of over 5 years, CamelBak s sales team maintains enduring and entrenched relationships with each of its customers.

The Recreational Domestic division manages customers through both an in- house sales management staff and a network of sales agencies consisting of a number of independent sales representatives. The Recreational International division manages its international customers through local distributors focused on premier retail accounts. CamelBak maintains an office in Europe with two employees to provide oversight.

CamelBak had firm sales backorders totaling $21.6 million and $29.3 million At December 31, 2013 and 2012, respectively.

Competition

CamelBak pioneered the hydration category with the introduction of the hydration pack more than 20 years ago. CamelBak s brand admiration and customer loyalty, which are driven by its innovative products, have allowed it to continuously defend its market position in packs. These traits have also allowed CamelBak to successfully enter the bottle category where it holds a leading market position.

A summary of CamelBak s competitors in hydration packs, bottles and reservoirs is listed below:

CamelBak Recreational Competitors

Hydration Packs	Bottles	Reservoirs
Osprey	Nalgene	Platypus
The North Face	SIGG	Hydrapak
DaKine	Nathan Performance Gear	Source
	Polar	
	Kleen Kanteen	
	Contigo	

Across its military product set, CamelBak competes against a wide variety of industry players which include large prime and tier two defense companies, small and mid-sized companies specializing in warfighter equipage and companies focused predominantly on the consumer or materials market with a limited number of defense product offerings. CamelBak is recognized as a high-end supplier in each of its product categories (hydration and gloves). Management believes CamelBak is the leading supplier of post-issue hydration packs with over 85% of the market share and among the leading providers of specialized tactical gloves which are worn by some of the most elite warfighters in the world.

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Suppliers

CamelBak s product manufacturing is based on a dual strategy of in-house manufacturing and strategic alliances with select sub-contractors and vendors. CamelBak operates a scalable, low-cost supply chain, sourcing materials and employing contract manufacturers from across the Asia-Pacific region, the U.S. and Puerto Rico. Once manufactured, products are shipped directly from overseas manufacturers to CamelBak s distribution center in San Diego for receiving and stocking and thereafter distributed to retail locations or third-party distributors.

CamelBak has developed an efficient and low-cost supply chain. CamelBak s deep understanding of military procurement requirements has allowed it to build a flexible network of vendors to reliably meet large military orders on short notice and to shift orders to vendors to be compliant with military requirements for its products. While striving to maximize the profitability of its products, CamelBak is also keenly aware of its corporate responsibility and, thus, holds itself and its vendors to the highest supply chain practices. As a result of CamelBak s dedication to superior supply chain and manufacturing practices, the U.S. Military s GSA named CamelBak the Green Contractor of the Year in 2009 and MAS Contractor of the year in 2011 .

In recent years, CamelBak has streamlined its operating expenses, tightening cost controls and maintaining a cost structure more in line with the size of its platform. Additionally, CamelBak has driven cost improvements by negotiating prices with vendors using an open book policy, in which each vendor s profit margins, labor rates and material costs are agreed to upfront. This allows CamelBak s operations group to negotiate reductions in component prices from raw material manufacturers resulting in cost savings.

CamelBak s primary raw materials are fabric, resin, polyurethane film and various resins for which CamelBak and/or its supplier partners receive multiple shipments per week. CamelBak purchases its materials from a combination of domestic and foreign suppliers.

Intellectual Property

Hydration priorities include easy cleaning and filling, freshness and taste, durability, temperature, water purity, leak-proof products and sustainability, all of which improve a customer s overall hydration experience or enable the customer to perform at high levels. As a reflection of this focus, CamelBak holds 51 active patents and 33 pending patent applications.

Regulatory Environment

Management is not aware of any existing, pending or contingent liabilities that could have a material adverse effect on CamelBak s business. CamelBak is proactive regarding regulatory issues and is in compliance with all relevant regulations. Management is not aware of any potential environmental issues.

Employees

As of December 31, 2013, CamelBak employed approximately 252 persons. None of CamelBak s employees are subject to collective bargaining agreements. CamelBak believes its relationship with its employees is good.

Ergobaby

Overview

Ergobaby, headquartered in Los Angeles, California, is a premier designer, marketer and distributor of wearable baby carriers and related baby wearing products as well as stroller travel systems and accessories. Ergobaby offers a broad range of wearable baby carriers, stroller travel systems and related products that are sold through more than 450 retailers and web shops in the United States and throughout the world.

Ergobaby s reputation for product innovation, reliability and safety has led to numerous awards and accolades from consumer surveys and publications, including babycenter, theBump, SheKnows Parenting, Parenting Magazine, Pregnancy magazine and Wired magazine.

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For the fiscal years ended December 31, 2013, 2012 and 2011, Ergobaby had net sales of approximately $67.3 million, $64.0 million, and $44.3 million (from date of acquisition), respectively. Ergobaby had operating income totaling $12.6 million, $10.9 million and $7.9 million (from date of acquisition) in the years ended December 31, 2013, 2012 and 2011, respectively. Ergobaby had total assets of $115.3 million, $117.7 million and $118.4 million at December 31, 2013, 2012 and 2011, respectively. Ergobaby s net sales represented 6.8%, 7.2% and 7.3% of our consolidated net sales for the year ended December 31, 2013, 2012 and 2011, respectively.

History of Ergobaby

Ergobaby was founded in 2003 by Karin Frost, who designed baby carriers following the birth of her son. The baby carrier product line has since expanded into five key categories: the Original, Designer, Organic, Performance, and Travel carriers with multiple style variations. In its second year of operations, Ergobaby sold 10,500 baby carriers and by 2013 sold over 1,039,000 in the year. In order to support the rapid growth, in 2007, Ergobaby made a strategic decision to establish an operating subsidiary (EBEU) in Hamburg, Germany. We purchased a majority interest in Ergobaby on September 16, 2010.

On November 18, 2011 Ergobaby acquired Orbit Baby for approximately $17.5 million. Founded in 2004 and based in Newark, California, Orbit Baby produces and markets a premium line of stroller travel systems that utilize a patented hub ring to allow parents to easily move car seats from car seat bases to stroller frames in an instant without the need for any additional components. The product offering has increased to a full line of mix-and-match seats and bases.

In 2013, Ergobaby expanded its portfolio into the swaddling category. The launch of the Ergobaby Swaddler which focused on healthy hip and arm positioning for newborns is the first significant category expansion outside of baby carriers for the Ergobaby brand.

Both brands are well regarded in the infant and juvenile industry. Ergobaby was named to the 20 Best Products in the Last 20 Years by Parenting Magazine (2007), and continues to be recognized for its quality evident by recently being named babycenters 2012 Moms Pick for Best Baby Carrier. The Orbit Baby Infant System has received vast honors, including, 2007 iParenting Media Award for Best Product, Baby Gizmo s Editor s Choice 2012, babble.com favorite Car Seats 2012, She Knows Parenting Stroller Award 2011, and Lilsugar Best Stroller of 2010.

Industry

Ergobaby competes in the large and expanding infant and juvenile products industry. The industry exhibits little seasonality and is somewhat insulated from overall economic trends, as parents view spending on children as largely non-discretionary in nature. Consequently, parents spend consistently on their children, particularly on durable items, such as car seats, strollers, baby carriers, and related items that are viewed as necessities. Further, an emotional component is often a factor in parents purchasing decisions, as parents desire to purchase the best and safest products for their children. As a result, according to the USDA s most recent report on Expenditures on Children by Families 2012 (released in June 2013), parents on average, spend between $8,990 and $25,180 on their child on an annual basis for related housing, food, transportation, clothes, healthcare, daycare and other items, depending on age of the child & annual income. The amount spent by parents in the highest income group (before tax income greater than $105,000) was more than twice the amounts spent by parents in the lowest income group (before tax income of less than $60,640). On average, households spent between 12-25% of their before-tax income on a child. Similar patterns are seen in other counties around the world. According to a Mintel Group Ltd. report published in March 2010, estimated 2010 retail dollars spent on baby durables reached approximately $10.3 billion in the U.S. in 2010, up approximately $9.5 billion from 2004, with a considerably larger market worldwide. The U.S. retail market is expected to continue its growth trajectory through 2014 with an anticipated market size of approximately $12.0 billion.

Demand drivers fueling the growing spending on infant and juvenile products include favorable demographic trends, such as (i) an increasing number of births worldwide; (ii) a high percentage of first time births; (iii) an increasing age of first time mothers and a large percentage of working mothers with increased disposable income; and (iv) an increasing percentage of single child households and two-family households.

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Given that the child s safety is paramount, many parents do not want to compromise a baby or child s safety by purchasing secondhand products to save money. In many cases, when purchasing secondhand, the parent does not know key facts about the product they are buying, such as the age of the product, history of the item, or potential recalls by the manufacturer. Furthermore, the safety standards for the product may have changed since the version being resold, resulting in a product that does not meet the most rigorous safety standards. Consequently, as parents consider purchases of important necessities such as baby durables, they typically favor new products. According to Mintel Research, approximately 83% of baby carrier purchases were first-time purchases, with the remainder being either purchased second hand or borrowed.

Safety influences not only whether parents purchase new or used products, but also which brands parents choose, which consequently impacts pricing and competition within the infant and juvenile products market. In purchases of baby durables, parents often seek well-known and trusted brands that offer a sense of comfort regarding a product s reliability and safety. As a result, brand name and safety certifications can serve as a barrier to entry for competition in the market, as well as allow well-known brands such as Ergobaby to charge a premium.

Wearable Carriers and Baby Wearing Trends

Within the broader market for infant and juvenile products, Ergobaby operates specifically within the market for child mobility and transport products. According to the Juvenile Products Manufacturers Association (JPMA), reported child mobility and transport manufacturer dollar sales, which includes sales of carriers, strollers, travel systems, and related products, totaled approximately $1.1 billion in the U.S. in 2012. Penetration of baby carriers currently trails that of strollers, car seats, and other infant and juvenile products. JPMA manufacturer sales growth from 2011 to 2012 suggests that the soft carrier segment is growing more rapidly than other infant and juvenile product categories, with 21.3% unit growth and dollar growth. Comparatively, stroller shipments and convertible car seat shipments increased 10.3% and 11.2%, respectively, over the same period

Management believes that continued growth within the market for wearable baby carriers is driven by several trends, including (i) lower relative penetration of baby carriers versus other infant and juvenile products; (ii) favorable demographics; (iii) increasing focus on the popularity of baby wearing; and (iv) convenience and mobility of wearable products.

Products and Services

<u>Ergobaby Baby Carriers</u>

Ergobaby has two main baby carrier product lines: baby carriers and related carrier accessories. Ergobaby s baby carrier design supports a natural sitting position for babies, eliminating compression of the spine and hips that can be caused by unsupported suspension. The baby carrier also balances the baby s weight to parents hips and shoulders, and alleviates physical stress for the parent. Additional accessories are provided to complement the baby carriers including the increasingly popular Infant Insert.

Within the Baby Carrier product line, Ergobaby sells five key categories or collections: the Original, Designer, Organic, Performance, and Travel carriers and; within each line, Ergobaby offers multiple styles and color variations. Original carriers represented 64%, 55% and 39% of 2013, 2012 and 2011 carrier sales, respectively, and Organic carriers represented 19%, 21% and 37%, of 2013, 2012 and 2011 carrier sales, respectively, with all other carriers representing the remaining sales in each year. Baby Carrier sales were approximately $53.8 million, $44.6 million and $37.8 million in the years ended December 31, 2013, 2012 and 2011, respectively, and represented approximately 79.9% of total sales in 2013, 70% of total sales in 2012, and 86% of total sales in 2011.

Within the accessories category, the Infant Insert is the largest sales component of the accessory category, representing more than half of total accessory sales for 2011, 2012, and 2013. Accessory sales were $6.9 million, $6.0 million, and $6.5 million in 2013, 2012 and 2011, respectively and represented approximately 12% in 2013, and 13% of total sales in each of 2012, and 2011.

Ergobaby s core Baby Carrier product offerings with average retail prices are summarized below:

5 styles of baby carriers	$115	$195
3 styles of Infant Inserts	$25	$38

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Orbit Baby Infant Systems

The Orbit Baby Infant System has three main product groups: stroller travel systems, product extensions and accessories.

The Orbit Baby Stroller Travel System is a three-piece kit that includes an infant car seat, car seat base, and stroller. Unlike traditional infant travel systems, the Orbit Stroller Travel System s unique docking technology, or SmartHub TM , allows for easy interchange of four different seats, including the Infant Car Seat, Stroller Seat, Bassinet, and Toddler Car Seat.

The Orbit Baby car seat base (which stays in the car when not in use) is touted as the easiest, quickest base to safely install. The base s patent-pending StrongArm TM technology allows a secure installation in 60 seconds and easily docks the car seat from almost any angle, allowing the parent to ergonomically transport the child.

The Orbit Baby Infant Car Seat is the common plug-in for the three-in-one system and can be moved effortlessly from the car seat base to the stroller. As a result of the SmartHub technology, Orbit is the only infant car seat that ergonomically rotates for simple docking and undocking to and from the car and stroller.

The third member of the Stroller Travel System is Orbit s modern and easy-to-use stroller. As is the case with the car seat base, the circular SmartHub allows the infant car seat to dock on the stroller from any angle without adaptors, and with 360 degree rotation and recline, the baby can face rear, forward, or sideways to view the world from different perspectives.

Orbit Baby offers product extensions including additional seats and strollers, including the Double Helix Stroller for multiple children, to accommodate growing families.

Orbit Baby also offers a wide range of accessories including the Sidekick Stroller Board, Stroller Panniers, Weather Pack, Color Pack, Footmuffs, Stroller Travel Bag and Baby Gear Spa Kit.

Orbit Baby s core product offerings, extensions and accessories and suggested retail prices are below:

Stroller Travel System (includes Infant Car Seat, Car Seat Base, Stroller)	$980	
Stroller	$660-$1,150	
Car Seats and Car Seat Base	$380	$440
Bassinet Cradle	$295	
Accessories	$25-$195	

Competitive Strengths

Ergobaby innovation Ergobaby Carriers are known for their unsurpassed comfort Ergobaby s superior design results in improved comfort for both parent and baby. Parents are comfortable because baby s weight is evenly distributed between the hips and shoulders while baby sits ergonomically in a natural sitting position. The concept of baby carrying has increased in popularity in the U.S. as parents recognize the emotional and functional benefits of carrying their baby. Consumers continually cite the comfort, design, and convenient hands free mobility the Ergobaby carrier offers as key purchasing criteria.

Orbit Baby Innovation With 17 patents and 5 patents pending, Orbit Baby offers a complete child travel system, from stroller to car seat and beyond. A favorite with moms and dads alike, the integrated Orbit Baby system is designed to take your children everywhere with unprecedented ease and style. With an emphasis on advanced safety and engineering, Orbit Baby is continually recognized for its innovation, ergonomic design and environmentally friendly focus. Orbit Baby applies hands-on experience and extensive research to create products that are elegantly simple, intuitive to use, and unsurpassed in real-world safety.

Business Strategy

Increase Penetration of Current U.S. Distribution Channels Ergobaby continues to benefit from steady expansion of the market for wearable baby carriers and related accessories in the U.S. and internationally. Going forward, Ergobaby will continue to leverage and expand the awareness of its outstanding brands (both Ergobaby and Orbit Baby) in order to capture additional market share in the U.S., as parents increasingly recognize the enhanced mobility, convenience, and the ability to remain close to the

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child that Ergobaby carriers enable. Ergobaby currently markets its products to consumers in the U.S. through brick-and-mortar retailers, including specialty boutiques; online web shops; and directly through its website. Management has developed a targeted strategy to increase its penetration of these currently underpenetrated distribution channels that includes: (i) improved retain presence, including new packaging and in-store support materials; (ii) improving the effectiveness of marketing programs including utilization of social sites, digital marketing, and improved consumer engagement, and (iii) development of new products and designs.

Cultivate Attractive New Distribution Channels In addition to its existing retail customer base, comprised primarily of small specialty retail stores and boutiques, there are numerous other retail channels that offer tremendous growth opportunities for Ergobaby products. Specifically, management recently began targeting several types of retailers as Ergobaby continues its growth trajectory, including (i) multi-store maternity and infant and juvenile products chains; (ii) on-line retailers; (iii) department stores; and (iv) mass retailers.

International Market Expansion Testimony to the global strength of its lifestyle brand, Ergobaby derives approximately 60% of its sales from international markets. Similar to the U.S., Ergobaby can continue to leverage its brand equity in the international markets it currently serves to aggressively drive future growth, as well as expand its international presence into new regions. The market for Ergobaby s products abroad continues to grow rapidly, in part due to the growth in the number of births worldwide and the fact that in many parts of Europe and Asia, the concept of baby wearing is a culturally entrenched form of infant and child transport.

New Product Development Management believes Ergobaby has an opportunity to leverage its unique, authentic lifestyle brand and expand its product line. Since its founding in 2003, Ergobaby has successfully introduced new carrier products to maintain innovation, uniqueness, and freshness within its baby carrier and travel system product lines. The newest product category introduction has been the Ergobaby Swaddler focused on ergonomically swaddling newborns in a healthy hip and arm position. The product launched in July 2013 in specialty stores only in the US and in international markets. Management anticipates continued distribution expansion and new offerings in this category. At the end of 2013, Ergobaby announced the upcoming launch of G3 which was available for sale in January 2014 and represents the third generation of the Orbit Baby travel system. Still focused on interchangeable seats and bases, the G3 has improved the functionality of the stroller for an easier fold, improved brake system and ultimate ease in push.

Customers

Ergobaby primarily sells its products through brick-and-mortar retailers, online retailers and distributors and derives approximately 60% of its sales from outside of the U.S. Within the U.S., Ergobaby sells its products through over 450 brick-and-mortar retail customers and small infant and juvenile products chains, representing an estimated 2,900 retail doors. Ergobaby products are sold through its German based subsidiary, Ergobaby Europe, which services brick-and-mortar retailers and online retailers in Germany and France as well as services a network of distributors located in the United Kingdom, Austria, Finland, Russia, Switzerland, Belgium, the Netherlands, Sweden, Norway, Spain, Denmark, Italy, Turkey and the Ukraine. Sales to customers outside of the U.S. and European markets are predominantly serviced through distributors granted rights, though not necessarily exclusive, to sell within a specific geographic region.

Sales & Marketing

Within the U.S., Ergobaby directly employ sales professionals and utilizes independent sales representatives assigned to differing U.S. territories managed by in-house sales professionals. Independent salespeople in the U.S. are paid on a commission basis based on customer type and sales territory.

In Europe, Ergobaby directly employs its salespeople. In Europe, salespeople are paid a base salary and a commission on their sales, which is standard in that territory. Ergobaby Europe handles all Ergobaby distributor orders within the European countries including Russia and Ukraine; all other orders are handled through Ergobaby s U.S. offices.

Ergobaby has implemented a multi-faceted marketing plan which includes (i) targeted print advertising; (ii) online marketing efforts, including online advertisement, search engine optimization and social networking efforts; (iii) increasing tradeshow attendance; and (iv) increasing promotional activities.

Ergobaby had approximately $13.2 million and $10.0 million in firm backlog orders at December 31, 2013 and 2012, respectively.

Competition

The infant and juvenile products market is fragmented, with a few larger manufacturers and marketers with portfolios of brands and a multitude of smaller, private companies with relatively targeted product offerings.

Within the infant and juvenile products market, Ergobaby s Carriers primarily compete with companies that market wearable baby carriers. Within the wearable baby carrier market, several distinct segments exist, including (i) slings and wraps; (ii) soft-structured baby carriers; and (iii) hard frame baby carriers.

The primary global competitors in this segment are Baby Bjorn, Chicco, Britax and Manduca, which also market products in the premium price range. Especially in the US, Ergobaby also competes with several smaller companies that have developed wearable carriers, such as Beco, Boba, and L il Baby. Within the soft-structured baby carrier segment, Ergobaby benefits from strong distribution, good word of mouth, and the functionality of the design.

The Orbit Baby Infant System principally competes with other premium stroller systems including Stokke, Bugaboo, UppaBaby and Quinny.

Suppliers

During 2013, Ergobaby sourced its carrier and carrier accessory products from China, Vietnam and India and manufactures its stroller systems and accessory products in China. In 2012, Ergobaby began sourcing non-organic carriers and accessories from a manufacturing facility in Vietnam. China and Vietnam accounted for approximately 76.1% of Ergobaby s purchases in 2013. Ergobaby partnered with a manufacturer located in India in 2009, which manufactures Ergobaby s organic carriers and accessories, and represented approximately 23.9% of Ergobaby s purchases in 2013. Ergobaby s manufacturers in China, Vietnam and India have the additional capacity to accommodate Ergobaby s projected growth.

Intellectual Property

Ergobaby maintains a utility patent on its standard carrier, which was filed in 2003 and issued January 29, 2009. Notwithstanding this patent, Ergobaby primarily depends on brand name recognition and premium product offering to differentiate itself from competition. Ergobaby also has 17 patents and 5 patents pending for its Orbit Baby technology including Smart Hub.

Regulatory Environment

Management is not aware of any existing, pending, or contingent liabilities that could have a material adverse effect on Ergobaby s business. Ergobaby is proactive regarding regulatory issues and is in compliance with all relevant regulations. Ergobaby maintains adequate product liability insurance coverage and to date has not incurred any losses. Management is not aware of any potential environmental issues.

Employees

As of December 31, 2013 Ergobaby employed 98 persons in 5 locations. None of Ergobaby s employees are subject to collective bargaining agreements. We believe that Ergobaby s relationship with its employees is good.

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FOX

Overview

FOX, headquartered in Scott s Valley, California is a designer, manufacturer and marketer of high-performance suspension products used primarily on mountain bikes, side-by-side vehicles, on-road vehicles with off-road capabilities, off-road vehicles and trucks, all-terrain vehicles, or ATVs, snowmobiles, specialty vehicles and applications, and motorcycles. FOX s products offer innovative design, performance, durability and reliability that enhance ride dynamics (the interplay between the rider, the vehicle and the terrain), by improving performance and control. The FOX brand is associated with high-performance and technologically advanced products that provide users with improved control and a smoother ride while riding over rough terrain in varied environments.

FOX designs its products for, and markets its products to, some of the world s leading original equipment manufacturers, or OEMs, in its markets, and to consumers through the Aftermarket channel. Management believes that OEMs often prominently display and incorporate FOX products to improve the marketability and consumer demand for their high-performance models, which reinforces the FOX brand image. In addition, consumers purchase select FOX products in the Aftermarket channel where FOX markets through a global network of dealers and distributors.

For the fiscal years ended December 31, 2013, 2012 and 2011, Fox had net sales of approximately $272.7 million, $235.9 million, and $197.7 million and operating income of $38.8 million, $26.2 million and $22.6 million, respectively. Fox had total assets of $159.4 million, $142.8 million and $130 million at December 31, 2013, 2012 and 2011, respectively. Fox s net sales represented 27.7%, 26.7%, and 32.6% of our consolidated net sales for the years ended December 31, 2013, 2012 and 2011, respectively.

Recent Developments

On March 5, 2014, FOX entered into a definitive agreement to acquire the business of Sport Truck USA (Sport Truck) a full service, globally recognized distributor, primarily of its own branded aftermarket suspension solutions and a reseller of FOX products. Sport Truck also designs, markets, and distributes high quality lift kit solutions through their wholly owned subsidiaries BDS Suspension and Zone Offroad Products. FOX will acquire Sport Truck in an asset purchase transaction for approximately $44 million due at closing. The transaction is being financed with debt and includes a potential earn-out opportunity of up to a maximum of $29.3 million payable over the next three years contingent upon the achievement of certain performance based financial targets. The transaction is subject to approval by the employee stock ownership plan shareholders of Sport Truck and is expected to close by the end of March 2014.

History of Fox

Robert C. Fox, Jr. began developing suspension products in 1974 when, having participated in motocross racing, he sought to create a racing suspension shock that performed better than existing coil spring shocks. Working in a friend s garage, Mr. Fox created the Fox AirShox. The product was successful, and went into production in 1975. The next year, in 1976, Fox AirShox was used by the rider who won the AMA 500cc National Motocross Championship.

FOX suspension users have won numerous major races including 500cc Grand Prix races (motocross), Baja 1000 races (off-road), AMA SuperBike races (motorcycle road racing), and the Indianapolis 500 race (auto racing), generating greater market awareness of the FOX brand among enthusiasts.

FOX applied many of the same core suspension technologies developed for motocross racing to other categories. For example, in 1987 FOX started selling high-performance suspension products for snowmobiles. By 1991, FOX began supplying the mountain bike industry with rear shocks, FOX entered the ATV and other off-road vehicle markets in the mid-1990s and in 2001 FOX began offering front fork suspension products for mountain bikes.

We purchased a majority interest in FOX on January 4, 2008.

On August 13, 2013 FOX completed an initial public offering of its common stock. FOX sold 2,857,143 of its shares and certain of its shareholders, including us, sold 7,000,000 shares at an initial offering price of $15.00 per share. FOX currently trades on the NASDAQ exchange under the symbol FOXF. Subsequent to the initial public offering we currently own 53.9% of FOX.

Industry

FOX participates in markets that are diverse, both geographically and by product type. FOX manufactures and markets high performance; premium priced (high-end) suspension products in the large global markets for mountain bikes and powered vehicles used by recreational and professional users. FOX products for powered vehicles are used primarily on Side-by-Sides, on-road vehicles with off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, and motorcycles.

Suspension systems are critical to the performance of the mountain bikes and powered vehicles in the markets and product categories in which FOX participates. Technical features, component performance, product design, durability, reliability and brand recognition can strongly influence the purchasing decisions of consumers. Over the past decade, there have been significant technological advances in materials and features that have increased product functionality and performance, allowing high-end suspension products to be adapted for use in additional end-markets and mountain bike and powered vehicle categories.

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Products and Services

FOX designs and manufactures high-performance suspension products that dissipate the energy and force generated by mountain bikes and powered vehicles while they are in motion. A suspension product allows wheels or skis (in the case of snowmobiles) to move up and down to absorb bumps and shocks while maintaining contact with the ground for better control. FOX products use adjustable suspension, position sensitive damping, multiple air spring technologies, low weight and structural rigidity, all of which improve user control for greater performance.

FOX uses high-grade materials in their products and have developed a number of sophisticated assembly machines to maintain quality across all product lines. FOX suspension products are assembled according to precise specifications throughout the assembly process to create consistently high-performance levels and customer satisfaction.

Mountain bikes In the mountain bike product category, FOX offers high performance front fork and rear suspension products designed for cross-country, trail, all-mountain, free-ride and downhill riding. FOX also offers a ride-height adjustable seat post product (D.O.S.S.), which was introduced in 2012 to allow a rider to adjust his or her seat position for uphill, rolling trail or downhill riding without having to stop the mountain bike to adjust the seat. Mountain bike products are sold in three series: (i) Evolution series, designed for demanding, yet value-minded, enthusiasts; (ii) Performance series, designed for experienced enthusiasts and expert riders; and (iii) Factory series, which is designed for maximum performance at a professional level.

Powered vehicles FOX designs and manufactures high performance suspension products for Side-by-Sides, on-road vehicles with off-road capabilities, off-road vehicles and trucks, ATVs, snowmobiles, specialty vehicles and applications, and motorcycles. Products for these vehicles are designed for trail riding, racing and performance. FOX suspension products have also been used on limited quantities of off-road military vehicles and other small-scale select military applications. Products in the powered vehicle category range from two inch aluminum bolt-on shocks to patented position sensitive internal bypass shocks.

Competitive Strengths

Broad offering of high-performance products across multiple consumer markets Through the use of adjustable suspension, position sensitive damping, multiple air spring technologies, lightweight and rigid materials, and other technologies and methods, FOX suspension products improve the performance and control of the vehicles used by its consumers. FOX management believes that its reputation for high-performance products is reinforced by the successful finishes in world class competitive events by athletes incorporating FOX products in their vehicles, including the following examples in 2013:

- Three out of four Union Cycliste Internationale World Cup Mountain Bike Series titles;
- World Off Road Championship Series Side x Side Production 1000 Class Championship;
- American Motorcyclist Association, or AMA, Pro ATV Championship and first place finishes in 10 out of 10 races;
- International Series of Champions National Pro Open Championship for snowmobiles and first place finishes in 16 out of 16 races; and
- Two out of two overall Pro 2 Championships and first place finishes in 21 out of 29 Pro 2 races in the TORC and LOORRS off-road short course racing series

Strategic brand for OEMs, dealers and distributors Through its strategic relationships, FOX is often sought out by OEM customers and works closely with them to develop and design new products and product enhancements. Management believes this collaborative approach and product development processes strengthen FOX s relationships with its OEM customers. Management further believes that consumers value FOX branded suspension products when selecting high-performance mountain bikes and powered vehicles, and as a result, OEMs purchase and incorporate FOX premium suspension products in their mountain bikes and powered vehicles in order to increase the sales of their premium priced products. In addition, the inclusion of FOX products on high-end mountain bikes and powered vehicles reinforces the premium brand image which helps to drive sales in the Aftermarket channel.

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Premium brand with strong consumer loyalty FOX has developed a reputation for high-performance products resulting in a premium brand of high-performance suspension products that are generally sold at premium prices. The FOX logo is prominently displayed on each of its products used on mountain bikes and powered vehicles sold by OEM customers, which helps further reinforce its brand image. FOX management believes the FOX brand has achieved strong loyalty from its consumers.

Track record of innovation and new product introductions FOX s experience in suspension engineering and design in multiple markets and with a variety of vehicles, enables them to bring unique ride dynamics solutions to its customers. These ride dynamics often developed for use in one market may ultimately be deployed across multiple markets. For example, FOX s success in the high-end ATV category led to the widespread adoption of the same suspension technology in the Side-by-Side market, which became the second largest product category by sales for FOX in 2012.

During 2013, FOX launched more than 20 new products and generated more than 70% of its sales from products it introduced during the last three years. The following are examples of recent new development.

Podium RC3 provides external adjustment that allows the shock to easily be tuned for different rider skill, terrain, and racing type without having to be disassembled;

Float X Evol allows the rider to tune the spring characteristics of the shock via an air pump without having to remove the shock;

ECS Shock an external cooling system that significantly lowers shock temperatures, allowing powered vehicles to operate at higher speeds for extended periods without sacrificing driver control, particularly in extreme environments;

Float iCD provides riders the ability to adjust modes for different skills, terrains and activity levels on mountain bikes, resulting in increased utilization of the modes and an overall more efficient ride dynamics experience

Business Strategies

Continue to develop new and innovative products in current end-markets FOX intends to continue to develop and introduce new and innovative products in its current end-markets to improve ride dynamics for its consumers. Management believes that high-performance and control are important to a large portion of Fox s consumer base, and that the frequent introduction of products with innovative and improved technologies increases both OEM and aftermarket demand as consumers seek out products for their vehicles that can deliver these characteristics. Evolving market trends, such as changing mountain bike wheel sizes and increasing adoption rates of Side-by-Side vehicles, may increase demand for vehicles in FOX s end-markets in the future, which, in turn, should increase demand for its suspension products.

Leverage technology and brand to expand into new categories and end-markets FOX has a reputation as a leader in ride dynamics due to its ability to improve the performance of vehicles by incorporating high-performance suspension products. As a result FOX is often approached by OEM product development teams, athletes and others looking to improve the performance of their vehicles, including in end-markets in which where FOX may have not previously offered products**.** Management believes that its premium ride dynamics technologies may have applications in end-markets in which it does not currently participate in a meaningful way, and intends to selectively develop products for and forge relationships with customers in additional end-markets. These markets may include military, recreational vehicles (RVs), on-road motorcycles, commercial trucks and performance street cars. FOX also intends to evaluate selective potential acquisition opportunities for high-performance products and technologies that may help extend its ride dynamics platform.

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Increase Aftermarket penetration FOX has an Aftermarket distribution network of more than 2,500 retail dealers and distributors worldwide. FOX intends to increase this network by selectively adding dealers and distributors in certain geographic markets, in order to strategically expand Aftermarket-specific products and services to existing vehicle platforms.

Accelerate international growth A significant percentage of FOX current sales are to OEMs and dealers and distributors of Aftermarket products located outside the United States. FOX believes international expansion represents a significant opportunity and intends to selectively increase infrastructure investments and focus on select geographic regions. FOX intends to leverage its brand recognition to capitalize on positive consumer trends by increasing its sales to both OEMs and dealers and distributors globally, particularly in markets perceived as significant opportunities, including Asia-Pacific (particularly China, South Korea and Australia) and South America (particularly Brazil, Argentina and Chile).

Improve operating and supply chain efficiencies By enhancing design and production processes to increase efficiencies, reducing new product time to market and lowering production costs. Specifically, FOX has begun the process of moving a majority of the manufacturing of mountain bike products to Taiwan and intends to complete this process in 2015. This transition to Taiwan, once completed, will shorten production lead times to its mountain bike OEM customers in Asia, improve supply chain efficiencies and reduce manufacturing costs.

Research and Development

FOX employs full-time engineers focused on product development and employs numerous other technicians and employees who spend at least part of their time testing and using FOX products and helping develop engineering-based solu