

Edgar Filing: Compass Diversified Holdings - Form 10-Q

Compass Diversified Holdings
Form 10-Q
August 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2014

Or

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

For the transition period from _____ to _____

COMPASS DIVERSIFIED HOLDINGS

(Exact name of registrant as specified in its charter)

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

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Exchange Act

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting

Company

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

As of August 1, 2014, there were 48,300,000 shares of Compass Diversified Holdings outstanding.

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 For the period ended June 30, 2014
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NOTE TO READER

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

- the “Trust” and “Holdings” refer to Compass Diversified Holdings;
- “businesses,” “operating segments,” “subsidiaries” and “reporting units” refer to, collectively, the businesses controlled by the Company;
- the “Company” refer to Compass Group Diversified Holdings LLC;
- the “Manager” refer to Compass Group Management LLC (“CGM”);
- the “initial businesses” refer to, collectively, Staffmark Holdings, Inc. (“Staffmark”), Crosman Acquisition Corporation, Compass AC Holdings, Inc. (“ACI” or “Advanced Circuits”) and Silvue Technologies Group, Inc.;
- the “2012 acquisition” refer to the acquisition of Arnold Magnetic Technologies Holdings Corporation (“Arnold” or “Arnold Magnetics”);
- the “Trust Agreement” refer to the amended and restated Trust Agreement of the Trust dated as of November 1, 2010;
- the “2011 Credit Facility” refer to a credit agreement (as amended) with a group of lenders led by Toronto Dominion (Texas) LLC, as agent, which provides for the Revolving Credit Facility and the Term Loan Facility;
- the “2011 Revolving Credit Facility” refer to the \$320 million Revolving Credit Facility provided by the 2011 Credit Facility;
- the “2011 Term Loan Facility” refer to the Term Loan Facility provided by the 2011 Credit Facility;
- the “2014 Credit Facility” refer to the credit agreement entered into on June 6, 2014 with a group of lenders led by Bank of America N.A. as administrative agent, which provides for a Revolving Credit Facility and a Term Loan Facility;
- the “2014 Revolving Credit Facility” refer to the \$400.0 million Revolving Credit Facility provided by the 2014 Credit Facility that matures in June 2019;
- the “2014 Term Loan” refer to the \$325.0 million Term Loan Facility, as of June 30, 2014, provided by the Credit Facility that matures in June 2021;
- the “LLC Agreement” refer to the fourth amended and restated operating agreement of the Company dated as of January 1, 2012; and
- “we,” “us” and “our” refer to the Trust, the Company and the businesses together.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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FINANCIAL INFORMATION

ITEM 1. — FINANCIAL STATEMENTS

Compass Diversified Holdings
Condensed Consolidated Balance Sheets

| (in thousands) | June 30, 2014 (unaudited) | December 31, 2013 |
|--|---------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 115,349 | \$ 113,229 |
| Accounts receivable, less allowances of \$4,236 at June 30, 2014 and \$3,424 at December 31, 2013 | 137,215 | 111,736 |
| Inventories | 166,723 | 152,948 |
| Prepaid expenses and other current assets | 23,766 | 21,220 |
| Total current assets | 443,053 | 399,133 |
| Property, plant and equipment, net | 70,470 | 68,059 |
| Goodwill | 258,717 | 246,611 |
| Intangible assets, net | 331,121 | 310,359 |
| Deferred debt issuance costs, less accumulated amortization of \$331 at June 30, 2014 and \$4,161 at December 31, 2013 (refer to Note G) | 13,227 | 8,217 |
| Other non-current assets | 12,852 | 12,534 |
| Total assets | \$1,129,440 | \$1,044,913 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$65,336 | \$62,539 |
| Accrued expenses | 47,747 | 55,590 |
| Due to related party | 4,399 | 4,528 |
| Current portion, long-term debt | 5,750 | 2,850 |
| Other current liabilities | 4,760 | 4,623 |
| Total current liabilities | 127,992 | 130,130 |
| Deferred income taxes | 57,658 | 60,024 |
| Long-term debt, less original issue discount | 359,986 | 280,389 |
| Other non-current liabilities | 23,483 | 5,435 |
| Total liabilities | 569,119 | 475,978 |
| Stockholders' equity | | |
| Trust shares, no par value, 500,000 authorized; 48,300 shares issued and outstanding at June 30, 2014 and December 31, 2013 | 725,453 | 725,453 |
| Accumulated other comprehensive income | 788 | 693 |
| Accumulated deficit | (276,800) | (252,761) |
| Total stockholders' equity attributable to Holdings | 449,441 | 473,385 |
| Noncontrolling interest | 110,880 | 95,550 |
| Total stockholders' equity | 560,321 | 568,935 |
| Total liabilities and stockholders' equity | \$1,129,440 | \$1,044,913 |
| See notes to condensed consolidated financial statements. | | |

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Compass Diversified Holdings
Condensed Consolidated Statements of Operations
(unaudited)

| | Three months ended | | Six months ended | |
|---------------------------------------|--------------------|------|------------------|------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| (in thousands, except per share data) | | | | |