Compass Diversified Holdings
Form 10-K
February 29, 2016

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, 2015

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	þ	Accelerated filer	¨
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, 2015 was $742,289,290 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 54,300,000 shares of trust stock without par value outstanding at February 22, 2016.

Documents Incorporated by Reference

Certain information in the registrant's definitive proxy statement to be filed with the Commission relating to the registrant's 2016 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;
- the “Company” refer to Compass Group Diversified Holdings LLC;
- “businesses”, “operating segments”, “subsidiaries” and “reporting units” all refer to, collectively, the businesses controlled by the Company;
- 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 “2012 acquisition” refer to the acquisition of Arnold Magnetic Technologies;
- the "2014 acquisitions" refer to, collectively, the acquisitions of Clean Earth Holdings, Inc. and Sterno Products;
- the "2015 acquisition" refer to the acquisition of Fresh Hemp Foods Ltd. ("Manitoba Harvest")
- the “2012 disposition” refer to the sale of HALO Branded Solutions.;
- the "2015 dispositions" refer to, collectively, the sales of CamelBak Acquisition Corp. ("CamelBak") and AFM Holding Corp. ("American Furniture" or "AFM")
- the “Trust Agreement” refer to the amended and restated Trust Agreement of the Trust dated as of April 25, 2007;
- the “2011 Credit Facility” refer to the Credit Facility with a group of lenders led by TD Securities (USA) LLC (“TD Securities”) which provided for the 2011 Revolving Credit Facility and the 2011 Term Loan Facility;
- the "2014 Credit Facility" refer to the credit agreement entered into on June 14, 2014 with a group of lenders led by Bank of America N.A. as administartive agent, which provides for a Revolving Credit Facility and a Term Loan;
- the “2014 Revolving Credit Facility” refer to the $400 million Revolving Credit Facility provided by the 2014 Credit Facility that matures in June 2019;
- the “2014 Term Loan” refer to the $325 million Term Loan Facility, provided by the 2014 Credit Facility that matures in June 2021;
- the “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,” “sho “would,” “could,” “potentially,” or “may” or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this 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 persons who are employees and partners of our Manager receive a profit allocation as beneficial owners of 58.8% through Sostratus LLC 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.

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, 2015, we believe that these businesses have strong management teams, operate in strong markets with defensible market niches and maintain long standing customer

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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.

2015 Highlights

Acquisition of Manitoba Harvest

On July 10, 2015, we closed on the acquisition of all of the issued and outstanding capital stock of Fresh Hemp Foods Ltd. ("Manitoba Harvest") through our wholly owned subsidiary FFHF Holding Ltd. pursuant to a stock purchase agreement entered into on June 5, 2015. Headquartered in Winnipeg, Manitoba, Manitoba Harvest is a pioneer and global leader in branded, hemp-based foods. Manitoba Harvest’s award-winning products are currently carried in approximately 7,000 retail stores across the U.S. and Canada.

We made loans to Manitoba Harvest and paid a purchase price of approximately $102.7 million (C$130.3 million), and acquisition related expenses of approximately $1.1 million (C$1.4 million). We funded the acquisition through drawings on our 2014 Revolving Credit Facility. CGM acted as an advisor to us on the deal and will continue to provide integration services during the first year of our ownership of Manitoba Harvest. CGM will receive integration service fees of $1.0 million, which are payable quarterly as services are rendered, beginning September 30, 2015.

Sale of CamelBak

On August 3, 2015, pursuant to a stock purchase agreement dated July 24, 2015, we sold our majority owned subsidiary, CamelBak, based on a total enterprise value for CamelBak of $412.5 million, plus approximately $14.1 million of estimated cash and working capital adjsutments. Our share of the net proceeds, at closing, after accounting for the redemption of CamelBak’s noncontrolling holders and the payment of transaction expenses totaled $367.8 million. We recognized a gain of $164.0 million during the year ended December 31, 2015 as a result of the sale of CamelBak. Refer to "Related Party Transactions and Certain Transactions Involving Our Business - LLC Agreement" for a discussion of the profit allocation payment associated with the sale of CamelBak.

The transaction is subject to adjustments for certain changes in the working capital of CamelBak. The Stock Purchase Agreement contains customary representations, warranties, covenants and indemnification provisions.

Sale of American Furniture

On October 5, 2015, all of the issued and outstanding shares of capital stock of our majority owned subsidiary, American Furniture, were sold for a sale price of $24.1 million. The Company’s share of the net proceeds at closing, after accounting for the redemption of American Furniture's non-controlling shareholders and the payment of transaction expenses, totaled $23.5 million. The sale of American Furniture met the criteria for the assets to be classified as held for sale as of September 30, 2015, and the American Furniture subsidiary is presented as discontinued operations in the accompanying condensed consolidated financial statements for all periods presented. The Company recognized a loss on the sale of American Furniture of $14.3 million during the year ended December 31, 2015. Refer to "Related Party Transactions and Certain Transactions Involving Our Business - LLC Agreement" for a discussion of the profit allocation associated with the sale of American Furniture.

2015 Distributions

For the 2015 fiscal year we declared and paid distributions to our shareholders totaling $1.44 per share.

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The following is a brief summary of the businesses in which we own a controlling interest at December 31, 2015:
Branded Products Businesses

Ergobaby
Ergobaby Carrier, Inc. ("Ergobaby"), headquartered in Los Angeles, California, is dedicated to building a global community of confident parents with smart, ergonomic solutions that enable and encourage bonding between parents and babies. Ergobaby offers a broad range of award-winning baby carriers, strollers, car seats, swaddlers, nursing pillows, and related products that fit into families' daily lives seamlessly, comfortably and safely. 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 74.2% 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, office and gun safes in North America. From it's over 300,000 square foot manufacturing facility, Liberty produces a wide range of home and gun safe models in a broad assortment of sizes, features and styles. 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 84.6% on a fully diluted basis.

Manitoba Harvest
Manitoba Harvest is a pioneer and global leader in branded, hemp-based foods. Headquartered in Winnipeg, Manitoba, Manitoba Harvest's products are currently carried in approximately 7,000 retail stores across the United States and Canada. Manitoba Harvest's hemp-exclusive, 100% all natural product lineup include hemp hearts, hemp oil and hemp protein powder. We made loans to, and purchased an 87% controlling interest in, Manitoba Harvest on July 10, 2015 for approximately $102.7 million (C$130.3 million). In December 2015, Manitoba Harvest acquired all of the outstanding stock of Hemp Oil Canada Inc. ("HOCI"), a wholesale supplier and a private label packager of hemp food products and ingredients, for approximately $32.7 million (C$44.7 million). In connection with the HOCI acquisition, the former shareholders of HOCI invested $6.8 million (C$9.3 million) in Manitoba Harvest equity, resulting in a dilution of our ownership interest. We currently own 76.6% of the outstanding stock of Manitoba Harvest on a primary basis and 65.6% 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 small-run, 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 small-run 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 basis and 69.3% on a 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 87.3% on a fully diluted basis.

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Clean Earth
Clean Earth Holdings, Inc. ("Clean Earth"), headquartered in Hatboro, Pennsylvania, is a provider of environmental services for a variety of contaminated materials. Clean Earth provides a one-stop shop solution that analyzes, treats, documents and recycles waste streams generated in multiple end-markets such as power, construction, commercial development, oil and gas, infrastructure, industrial and dredging. We made loans to, and purchased a controlling interest in, Clean Earth on August 26, 2014 for approximately $251.4 million. We currently own 97.5% of the outstanding stock of Clean Earth on a primary basis and 86.2% on a fully diluted basis.

Sterno Products
Candle Lamp Company, LLC ("Sterno Products" or "Sterno"), headquartered in Corona, California, is a leading manufacturer and marketer of portable food warming devices and creative table lighting solutions for the food service industry. Sterno's product line includes wick and chafing fuels, butane stoves and accessories , liquid and traditional wax candles, catering equipment and lamps. We made loans to, and purchased all of the equity interests in, Sterno Products on October 10, 2014 for approximately $160.0 million. We currently own 100.0% of the outstanding stock of Sterno Products on a primary basis and 89.7% on a fully diluted basis.
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 67.3% 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. We also own approximately 41% of the outstanding shares of FOX, which is accounted for as an equity method investment. FOX is headquartered in Scotts Valley, California, and is a designer, manufacturer and marketer of high-performance ride dynamics 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.
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 2015 and future years, the Trust will continue to file a Form 1065 and issue Schedule K-1 to shareholders. For 2015, we delivered the Schedule K-1 to shareholders within the same time frame as we delivered the schedule to shareholders for the 2014 and 2013 taxable years. 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 14.6% of the Trust shares and is our single largest holder. Mr. Offenberg, our Chief Executive Officer, is not a director, officer or member of CGI or any of its affiliates.
2) 58.8% beneficially owned by certain persons who are employees and partners of our Manager. Mr. Day, the Chairman of our Board of Directors, CGI and the former founding partner of the Manager, 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.

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

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businesses. We pay our Manager a quarterly management fee for the services it performs on our behalf. In addition, certain persons who are employees and partners 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

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

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- 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.

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. 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

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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.

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 future growth and 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 net gains on sales of our businesses of approximately $348 million (excluding the gains on the sale of our shares in FOX). 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 October 2011, HALO Branded Solutions ("HALO") in May 2012, CamelBak in August 2015 and American Furniture in October 2015.

In August 2013, FOX completed an initial public offering of its common stock at an initial offering price of $15.00 per share. FOX sold 2,857,143 shares and certain of its shareholders sold 7,000,000 shares (including 5,800,238 shares held by us). FOX trades on the NASDAQ stock market under the ticker "FOXF". We received approximately $80.9 million in net proceeds from the sale of our FOX shares in the initial public offering, and our ownership interest in FOX was reduced to approximately 53.9%. No gain was reflected as a result of the sale of our FOX shares in the initial public offering because our majority classification of FOX did not change. FOX used a portion of their net proceeds received from the sale of their shares as well as proceeds from a new external FOX credit facility to repay $61.5 million in outstanding indebtedness to us under their existing credit facility with us. On July 10, 2014, FOX filed a registration statement on Form S-1 with the Securities and Exchange Commission (the "SEC") for the FOX Secondary Offering. Certain FOX shareholders, including us, sold shares of FOX common stock through the FOX Secondary Offering at a price of $15.50 per share. As a selling shareholder, we sold a total of 4,466,569 shares of FOX common stock, for total net proceeds of approximately $65.5 million. Upon completion of the offering, our ownership in FOX was reduced from approximately 53% to 41%, or 15,108,718 shares of FOX's common stock. As a result of the sale of the FOX shares by the Company in the FOX Secondary Offering, we no longer hold a controlling ownership interest in FOX. We recognized a gain of approximately $76.2 million related to the shares that were sold in the FOX Secondary Offering, and a gain of approximately $188.0 million related to the deconsolidation of our retained interest in FOX, for a total gain of approximately $264.3 million.

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 2014 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 Bank of America N.A. that we entered into on June 6, 2014. The 2014 Credit Facility provides for (i) revolving loans, swing line loans and letters of credit up to a maximum aggregate amount of $400 million, and (ii) a $325 million term loan. The 2014 Term Loan was issued at an original issuance discount of 99.5% of par value. The 2014 Term Loan requires quarterly payments of $812,500 commencing September 30, 2014 with a final payment of all remaining principal and interest due on June 6, 2021, which is the 2014 Term Loan maturity date. At December 31, 2015, we had $320.1 million outstanding on the 2014 Term Loan. All amounts outstanding under the 2014 Revolving Credit Facility will become due on June 6, 2019, which is the maturity date of loans advanced under the 2014 Revolving Credit Facility and the termination date of the revolving loan commitment. The 2014 Credit Facility also permits us, prior to the applicable maturity date, to increase the revolving loan commitment and/or obtain additional term loans in an aggregate amount of up to $200 million subject to certain restrictions and conditions.

The 2014 Credit Facility provides for letters of credit under the 2014 Revolving Credit Facility in an aggregate face amount not to exceed $100 million outstanding at any time, as well as swing line loans of up to $25 million outstanding at one 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 and swing line loans,

exceed the borrowing availability under the 2014 Credit Facility. At December 31, 2015, we had outstanding letters of credit totaling approximately $4.2 million. The borrowing availability under the 2014 Revolving Credit Facility at December 31, 2015 was approximately $395.8 million.

The 2014 Credit Facility is secured by all of the assets of the Company, including all of its equity interests in, and loans to, its consolidated subsidiaries. (See Note J to the consolidated financial statements for more detail regarding our 2014 Credit Facility).

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We intend to finance future acquisitions through our 2014 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 consumer 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 consumer businesses are leaders in their particular product category. Niche industrial businesses are characterized as those businesses that focus on manufacturing and selling particular products and industrial services 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, 2015, 2014 and 2013, 25.5%, 45.8%, and 63.0% of net sales are attributable to our branded consumer businesses with the remaining net sales attributable to our niche industrial businesses. The 2014 percentage includes the net sales attributable for FOX prior to July 10, 2014, when FOX became an equity method investment.

Branded Consumer Businesses

Ergobaby

Overview

Ergobaby is dedicated to building a global community of confident parents with smart, ergonomic solutions that enable and encourage bonding between parents and babies. Ergobaby offers a broad range of award-winning baby carriers, strollers, car seats, swaddlers, nursing pillows, and related products that fit into families' daily lives seamlessly, comfortably and safely. Ergobaby is headquartered in Los Angeles and is sold in more than 650 retailers and online sites in the United States and in more than 50 countries.

For the fiscal years ended December 31, 2015, 2014 and 2013, Ergobaby had net sales of approximately $86.5 million, $82.3 million and $67.3 million, respectively. Ergobaby had operating income totaling $22.2 million, $18.1 million and $12.6 million in the years ended December 31, 2015, 2014 and 2013, respectively. Ergobaby had total assets of $110.5 million and $115.3 million at December 31, 2015 and 2014. Ergobaby's net sales represented 10.7%, 11.7%, and 9.1% of our consolidated net sales for the year ended December 31, 2015, 2014 and 2013, respectively.

History of Ergobaby

Ergobaby was founded in 2003 by Karin Frost, who designed her first baby carrier following the birth of her son. The baby carrier product line has since expanded into 3-position and 4-position carriers, with multiple style variations. In its second year of operations, Ergobaby sold 10,500 baby carriers and by 2015 sold over 1 million 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 strollers and car seats 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 a unique, method of swaddling newborns while retaining healthy hip and arm positioning, is the first significant category expansion outside of baby carriers for the Ergobaby brand. In 2014, Ergobaby launched the Ergobaby Four-Position 360 Baby Carrier which expanded on Ergobaby's leadership in the baby carrier category by offering an ergonomic, outward forward facing position for

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the baby and comfort for the parent. The Ergobaby 360 Carrier won the 2014 JPMA Innovation award in the baby carrier category. In 2015, Ergobaby launched The Ergobaby Natural Curve Nursing Pillow. Developed with input from lactation experts and nursing mothers, the Natural Curve Nursing Pillow has a unique, contoured shape to support the baby in the ideal position for more comfortable nursing. The Natural Curve Nursing Pillow won the 2015 JPMA New Product Innovation Award in its category.

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 2013 (released in August 2014), parents on average, spend between $9,130 and $25,700 on their child on an annual basis for related housing, food, transportation, clothes, healthcare, daycare and other items, depending on age of the child and annual income. The amount spent by parents in the highest income group (before tax income greater than $106,540) was more than twice the amounts spent by parents in the lowest income group (before tax income of less than $61,530). On average, households spent between 14 - 25% of their before-tax income on a child. Similar patterns are seen in other counties around the world.

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.

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, comfort 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 within a number of categories, including the market for child mobility and transport products. According to JPMA, reported child mobility and transport manufacturer dollar sales, which includes sales of carriers, strollers, travel systems, and related products, totaled approximately $1.2 billion in the U.S. in 2013. Penetration of baby carriers currently trails that of strollers, car seats, and other infant and juvenile products. JPMA manufacturer sales growth from 2012 to 2013 suggests that the soft carrier segment is growing more rapidly than other infant and juvenile product categories, with 22% sales dollar growth. Comparatively, stroller shipments and convertible car seat shipments increased 16% and 5%, 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.

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Products and Services

Ergobaby Baby Carriers

Ergobaby has two main baby carrier product lines: baby carriers and related carrier accessories. Ergobaby's baby carrier design supports a natural, ergonomic 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. Both Erogbaby's 3-Position and 4-Position baby carriers have been recognized by the International Hip Dysplasia Institute as being "hip healthy". Additional accessories are provided to complement the baby carriers including the popular Infant Insert.

Within the Baby Carrier product line, Ergobaby sells 3-Position and 4-Position baby carriers in a variety of style and color variations. Baby Carrier sales were approximately $68.6 million, $63.1 million and $53.8 million in the years ended December 31, 2015, 2014 and 2013, respectively, and represented approximately 79.3%, 76.8%, and 79.9% of total sales in 2015, 2014 and 2013, respectively.

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 2015, 2014 and 2013. Accessory sales were $10.8 million, $8.7 million and $7.2 million, in 2015, 2014 and 2013, respectively and represented approximately 13% in 2015 and 11% in 2014 and 2013, of total sales.

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

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

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. In 2015, Orbit Baby launched the 02 Hybrid Jogging Stroller, a full-featured everyday stroller and a high-performance running stroller in one.

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
- O2 Hybrid Jogging Stroller - $620
- 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

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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 19 patents and 2 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 Strategies

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 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 retai1 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.

International Market Expansion - Testimony to the global strength of its lifestyle brand, Ergobaby derives approximately 56% 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. In addition to expanding into new product carriers like swaddling and nursing pillows, Ergobaby has become the baby carrier industry leader with the launch of the 4-Position 360 baby carrier and new product launches in 2016.

Customers

Ergobaby primarily sells its products through brick-and-mortar retailers, online retailers and distributors and derives approximately 56% 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

and salespeople are paid a base salary and a commission on their sales, which is standard in that territory.
Ergobaby has implemented a multi-faceted marketing plan which includes (i) online marketing efforts, including online advertisement, search engine optimization and social networking efforts; (ii) increasing tradeshow attendance at consumer and medical professional shows; and (iii) increasing promotional activities.
Ergobaby had approximately $15.1 million and $15.6 million in firm backlog orders at December 31, 2015 and 2014, respectively.

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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 baby 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, Tula and LilleBaby. 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 Britax.

Suppliers

During 2015, Ergobaby sourced its carrier and carrier accessory products from Vietnam and India and manufactures its stroller systems and accessory products in China. In 2012, Ergobaby began sourcing carriers and accessories from a manufacturing facility in Vietnam. Vietnam accounted for approximately 64.3% of Ergobaby's purchases in 2015. Ergobaby partnered with a manufacturer located in India in 2009, which manufactures Ergobaby's carriers and accessories, and represented approximately 19.4% of Ergobaby's purchases in 2015. The Orbit Baby stroller systems and accessories manufactured in China and purchases from its primary China based manufacturing facility accounted for approximately 16.3% of Ergobaby purchases. Ergobaby's manufacturers in China, Vietnam and India have the additional capacity to accommodate Ergobaby's projected growth.

Intellectual Property

Ergobaby prosecutes and maintains a U.S. and international patent portfolio on some of its various products, including its 3-position and 4-position carriers. Currently, it has 8 patents and 19 patents pending. Ergobaby also has 19 patents and 2 patents pending for its Orbit Baby technology including Smart Hub. Ergobaby also depends on brand name recognition and premium product offering to differentiate itself from competition.

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, 2015, Ergobaby employed 107 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.

Liberty Safe

Overview

Liberty Safe, headquartered in Payson, Utah and founded in 1988, is the premier designer, manufacturer and marketer of home, gun and office safes in North America. From its over 314,000 square foot manufacturing facility, Liberty Safe produces a wide range of home, office and gun safe models in a broad assortment of sizes, features and styles ranging from an entry level product to good, better and best products. Products are marketed under the Liberty Safe brand, as well as a portfolio of licensed and private label brands, including Remington, Cabela's and John Deere.

Liberty Safe's products are the market share leader and are sold through an independent dealer network ("Dealer sales") in addition to various sporting goods, farm and fleet, and home improvement retail outlets ("Non-Dealer sales" or "National sales"). Liberty Safe has the largest independent dealer network in the industry.

Historically, approximately 55% of Liberty Safe's sales are Non-Dealer sales and 45% are Dealer sales.

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For the fiscal years ended December 31, 2015, 2014 and 2013, Liberty Safe had net sales of approximately $101.1 million, $90.1 million and $126.5 million, respectively, and operating income of $11.9 million for the year ended December 31, 2015, an operating loss of $2.7 million in 2014, and operating income of $12.5 million in the year ended December 31, 2013. Liberty Safe had total assets of $77.1 million and $78.2 million at December 31, 2015 and 2014, respectively. Net sales from Liberty Safe represented 12.6%, 12.8% and 17.1% of our consolidated net sales for the year ended December 31, 2015, 2014 and 2013, respectively.

History of Liberty Safe

The Liberty Safe brand and its leading market share has been built over a 27 year history of superior product quality, engineering and design innovation, and leading customer service and sales support. Liberty Safe has a long history of continuous improvement and innovative approaches to sales and marketing, product development and manufacturing processes. Significant investments over the last five years have solidified Liberty Safe's reputation for providing substantial value to retailers and enhanced its long-standing position as the leading producer of premium home, office and gun safes.

Liberty Safe commenced operations in 1988 and throughout 1991 and 1992, increased its distribution capabilities, establishing a regional sales force model to better serve the Dealer channel. This expanded sales coverage gave Liberty Safe the needed organizational structure to provide ready support and products nationwide, helping to establish its reputation for service to its customers. On the strength of its growing reputation and national sales presence, Liberty Safe achieved the status of the #1 selling safe company in America in 1994, according to Sargent and Greenleaf data, the major lock supplier to the industry, a position that it has maintained to this day. In 2001, Liberty Safe opened its current 314,000 square foot state-of-the-art facility in Payson, UT and consolidated all of its manufacturing and distribution operations to a centralized location. As the only facility in the industry utilizing significant automation and a streamlined roll-form manufacturing process, it represented a significant step forward when compared to the production capabilities of its competitors. Incremental investments following the consolidation have solidified Liberty Safe's position as the pre-eminent low-cost and most efficient domestic manufacturer. Beginning in 2007, Liberty Safe reorganized its manufacturing process, retooled its product line for increased standardization throughout the production process and realigned employee incentives to increase labor efficiency. These improvements enabled Liberty Safe to shift from build-to-stock production to build-to-order with shorter lead time requirements, greater labor efficiency and reduced working capital.

During 2011 Liberty Safe constructed a new production line that has allowed Liberty to build entry level safe products in-house. This production line produces home and gun safe models that were previously completely sourced through foreign manufacturers. The production line began operations in February 2012 and Liberty is currently manufacturing five different sizes of safes on this line which translates into several new SKUs. Liberty invested over $9.0 million to build the line. This investment in production capacity now makes Liberty Safe the largest manufacturer of home, office and gun safes in the world. This added investment in capacity in the U.S. will allow Liberty Safe to provide shorter lead times and more competitive pricing to its North American customer base. This will allow Liberty Safe to capture additional market share, growing its revenue base and adding more margin dollars to the bottom line.

We purchased a majority interest in Liberty Safe on March 31, 2010.

Industry

Liberty Safe competes in the broadly defined North American safe industry which includes fire and document safes, media and data safes, depository safes, gun safes and cabinets, home safes and hotel safes. According to Global Industry Analysts, ("GIA") March 2008 report, the global safe industry was estimated to be approximately $2.9 billion of wholesale sales in 2008, and grew consistently at an estimated CAGR of 4.3% from 2000 to 2009. Consistent growth has been one of the defining characteristics of this industry, and GIA anticipates it will continue at a rate of 4.4% from 2009 through 2015. The safe industry experienced a boom and bust cycle in 2013 and 2014 as a result of the threat of increased legislation regulating gun ownership prompting significant demand in 2013. The significant increase in demand experienced in 2013 subsided in 2014 as retail chains over bought inventory in late 2013, resulting in depressed sales throughout 2014 for gun safe manufacturers. The industry has seen a return to normalized sales levels during 2015.

Products & Services

Liberty Safe offers home, office and gun safes with retail prices ranging from $400 to $8,000.
Liberty Safe produces 39 home and gun safe models with the most varied assortment of sizes, feature upgrades, accessories and styling options in the industry. Liberty Safe's premium home and gun safe product line covers sizes from 12 cu. ft. to 50 cu. ft.

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with smaller sizes available for its personal home safe. Liberty Safe markets its products under Company-owned brands and a portfolio of licensed and private label brands, including Remington, Cabela's, John Deere and others. Liberty Safe also sells commercial safes, vault doors, handgun vaults, and a number of accessories and options. The overwhelming majority of revenue is derived from the sales of safes.

Competitive Strengths

#1 Premium Home and Gun Safe Brand with Strong Momentum in the Market - Liberty Safe achieved the status of #1 selling safe company in America in 1994 (per statistics provided by Sargent & Greenleaf, the primary lock supplier to the industry) and maintains this prominent position today. Management estimates that Liberty Safe's net sales are over twice those of its next largest competitor in the category. Liberty Safe continues to gain market share from the various smaller participants who lack the distribution and sales and marketing capabilities of Liberty Safe.

State-of-the-Art and Scalable Operations - Over the past five years, management has constructed a highly scalable operational platform and infrastructure that has positioned Liberty Safe for substantial sales growth and enhanced profitability in the coming years. Liberty Safe transitioned itself from a manufacturing oriented operating culture to a demand-based, sales-oriented organization. It's strategic transition required the implementation of a demand-based sales and operating platform, which included (i) new equipment to drive automation and capacity improvements; (ii) re-engineered product lines and production processes to drive efficiency through greater standardization in production; and (iii) new employee incentives tied to labor efficiency, which has improved worker performance as well as employee attitude. These initiatives are enhanced by an experienced senior executive team, a balanced sourcing and in-house manufacturing production strategy, advanced distribution capabilities and sophisticated IT systems. Liberty has combined its demand-based sales and operating initiatives with upgraded production equipment to drive multiple operational improvements. Since 2007, Liberty has reduced its lead times from 4 - 6 weeks to approximately twenty-one days or less. These shorter production cycles coupled with better demand forecasting have significantly reduced working capital needs for the business. During 2013, lead times actually increased due to a significant spike in demand for safes from its customers. That demand spike subsided towards the end of fiscal 2013 where again, shorter lead times were experienced. Improved automation and workflow organization have decreased labor hours over 20% per safe from 8.3 in 2005 to 6.4 in 2015 for rolled steel safes. These recent initiatives combined with Liberty's cumulative historical investments in operational capabilities have created a lasting competitive advantage over its smaller competitors, who utilize labor-intensive operations and lack the company's lean manufacturing culture.

Historically, Liberty Safe maintained an optimal mix of in-house and Asian-sourced manufacturing in order to improve its ability to meet customer inventory needs. Beginning in 2012, Liberty Safe began manufacturing entry level safes that were previously completely sourced from an Asian manufacturer, on its new production line. In 2013, the market enjoyed unprecedented heightened demand related to gun sales resulting from threats of additional gun legislation. This caused Liberty Safe to reinstitute its import channel of safes. In 2014, approximately 84% of safes were made in the United States while the balance came from imported product. This was necessary as demand exceeded Liberty's manufacturing capacity in 2013. As a result of the boom and bust cycle experienced by Liberty, and the return to more normalized levels of demand, Liberty canceled its import channel of safes during the second half of 2014.

Liberty Safe has leased for the past ten years a manufacturing and distribution facility in Payson, Utah that management believes represents the most scalable domestic facility in the industry. Liberty Safe's multi-faceted production capabilities allow for substantial flexibility and scalable capacity, thus assuring a level of supply chain execution far superior to any of its competitors.

Reputation for High Quality Products - Liberty Safe offers only the highest quality products on a consistent basis, which over the years has gained it an enviable reputation and a key point of differentiation from its competitors. Liberty Safe distinguishes its products through tested security and fire protection features and industry leading design focused on functionality and aesthetics. The design of its safes meet rigorous internal benchmarks for security and fire protection, with most receiving certification from Underwriters Laboratory, Inc. ("UL"), the leading product safety standard certification, for its security capabilities. Additionally, Liberty Safe's investment in accessories and feature options have made Liberty safes the most visually appealing and functional in the industry, while providing more

customized solutions for retailers and consumers.

Trusted Supplier to National Retailer and Dealer Accounts - Liberty Safe's comprehensive, high-quality product offering and sophisticated sales and marketing programs have made it a critical supplier to a diverse group of national accounts and dealers. Initially a key supplier primarily to the dealer channel, it has expanded its business with national accounts, such as Gander Mountain, Cabela's and John Deere. Liberty Safe provides a superior value proposition as a supplier for its national retailers and dealers via its well-recognized brands, lifetime product warranty, tailored merchandising, category management solutions and superior supply chain execution. Further, Liberty Safe's products generate more profitable floor-space, with both high absolute gross profit and retail margins over 30%. High retail profitability plus increased inventory turns has entrenched Liberty Safe as a key partner in

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customers' success in the safe category. As a core element of building its relationships, Liberty Safe has invested significantly in making its retailers better salespeople through a proprietary suite of training tools, including in-store training, new product demonstrations, online education programs and sales strategy literature.

Business Strategies

Liberty Safe has experienced strong historical growth while executing on multiple new sales and operational initiatives, positioning it to continue to increase its scale and improve profitability. Liberty's growth strategy is rooted in the sales and marketing and operational initiatives that have spurred its expansion into new accounts and increased penetration of existing accounts. Liberty has significant opportunity in its existing channels to continue to build upon its already strong market share. In addition to growth within its current channels, Liberty's core competencies can be successfully applied to ventures in the broader security equipment market. Liberty has explored certain of these opportunities, but due to the prioritization of operational initiatives and expansion opportunities within existing channels, they have not been aggressively pursued. Potential near-to-medium term areas for expansion of Liberty's platform include:

- Expand Liberty's product line into the broader home and office safe market through current customers or new distribution strategies;
- Further develop international distribution by entering new countries and expanding current limited presence in Canada, Mexico and Europe;
- Enter the residential security market through a strategic partnership with a provider of residential security service solutions to provide a more complete physical and electronic security solution;
- Acquire businesses within the premium home and gun safe industry and/or leverage Liberty's platform into new products or channels; and
- Offer additional accessory products to existing distribution networks

Research and Development

Liberty Safe is the engineering and design leader in its sector, due to a history of first-to-market features and standard-setting design improvements. Liberty's proactive solicitation of feedback and constant interaction with consumers and retail customers across diverse channels and geographies enables Liberty Safe to stay at the forefront of customer demands. Liberty's approach to product development increases the likelihood of market acceptance by creating products that are more relevant to consumers' demands. Research and development costs were $0.6 million in 2015, $1.0 million in 2014 and $0.8 million in 2013.

The below charts represents some of the recent innovations in product design (and functionality) that have come about from Liberty's dedication to R&D:

Product	Function/Benefit
Cool Pocket ™	Keeps documents 50% cooler than rest of safe
Integrated lighting system	Automatic on/off interior lights
Palusol Heat activated door	Seal expands seven times its size in fire
Liberty Tough Doors	Enhanced protection against side bolt prying
Marble gloss powder coat paint	Provides smooth glass finish
4 in 1 Flex storage system	Adjustable shelving configurations
Door panels	Pocket variety to store handguns and other items
Magnetic magazine mount	Ammunition storage that adhere to any surface
Bright view wand light kit	Provides better lighting solution.
Bow hanger	Allows bow to hang in safe
Safe Alert sensor	Monitors and alerts owners of temperatures inside the safe

In addition to product enhancements, new products, such the plate-door National Security Classic, and a new, 6-SKU line of handgun vaults were launched in 2015 from Liberty's commitment to R&D.

Based on consumer feedback, Liberty saw demand for safes that were capable of holding more valuables within the safe but at a lower price point than Liberty's current large safe models. Within 3 months of conception, Liberty introduced the successful Fatboy® series in February 2010. The Fatboy® and Fatboy Jr.® models, which are wider and

deeper than traditional safes, were a natural complement to Liberty's current products, targeted at a specific customer need. The introduction and success of the Fatboy® series demonstrates Liberty's proven ability to recognize market opportunities, engineer a responsive product and execute market

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delivery. Beginning in 2012 Liberty Safe introduced five new SKUs, manufactured on its new production line, with a unique locking system to service the entry level safe market.

Customers

Liberty Safe has fostered long-term relationships with leading national retailers (National or Non-Dealer) as well as numerous Dealers, enabling Liberty Safe to achieve considerable brand awareness and channel exposure. Through significant investment in its national accounts sales and marketing efforts, Liberty Safe has also become the leading supplier to National accounts. Expansion into National accounts is part of Liberty Safe's strategy to reach a broader customer base and more varied demographics. National account customers include sporting goods retailers, farm & fleet retailers, and home improvement retailers. As of December 31, 2015, 2014 and 2013, Liberty Safe had 15, 14 and 15 Non-Dealer account customers, respectively, that are estimated to have accounted for approximately 55%, 56% and 59% of net sales, respectively.

Dealer customers include local hunting and fishing stores, hardware stores and numerous other local, independent store models. As of December 31, 2015, 2014 and 2013, there were 356, 321 and 306 Dealers that accounted for 45%, 44% and 41% of net sales, respectively.

Liberty Safe's two largest customers accounted for approximately 37.1%, 30.0% and 33.5% of net sales in 2015, 2014 and 2013, respectively.

Seasonality

Liberty Safe typically experiences its lowest earnings in the second quarter due to lower demand for safes at the onset of summer.

Sales & Marketing

Liberty Safe possesses robust sales and marketing capabilities in the safe industry. Liberty Safe utilizes separate sales teams for National accounts and Dealers, which enables it to provide more focused and effective strategies to manage and develop relationships within different channels. Liberty Safe has made significant recent investments in the development of a comprehensive sales and marketing program including merchandising, sales training and tools, promotions and supply chain management. Through these various initiatives, Liberty Safe offers highly adaptable programs to suit the varying needs of its retailers. This has enabled Liberty Safe to become a key supplier across diverse channels. Liberty Safe began advertising nationally on the Glenn Beck radio show in the second half of 2010. This advertising has been highly successful and Liberty has continued this advertising in each of the following years and intends on continuing this advertisement in the future.

Liberty Safe's comprehensive service offering makes it uniquely suited to service national retailers in a variety of channels. Liberty Safe has designed a Store-within-a-Store program and a more comprehensive Safe Category Management program to build relationships and increase its importance to retailers. Primarily utilized with sporting goods retailers, the Store-within-a-Store concept successfully integrates the effective sales strategies of its dealers for selling a high-price point, niche product into a larger store format. Centered on communicating the benefits of its products to customers, the program enables retailers to more effectively up-sell customers through a good-better-best merchandising platform, increasing margin and inventory turns for its retailers. Liberty's Safe Category Management program builds on the Store-within-a-Store concept to provide greater sales and marketing control and more complete inventory management solutions. This program facilitates Liberty Safe becoming the sole supplier to retailers, providing large incremental expansion and stronger relationships at accounts. No other market participant has the capabilities to provide a comprehensive suite of customer service solutions to national retailers, such as customized SKU programs, a Store-within-a-Store program and a Safe Category Management program. Liberty's sales are typically lowest in the second fiscal quarter due to lower demand for safes at the onset of summer, although this was not the case in 2013 due to significant sales backlog experienced throughout the year.

Competition

Liberty Safe is the premier brand in the premium home and gun safe industry, with an estimated 34% market share in the category. Liberty is in a class by itself when it comes to manufacturing technology and efficiency and supply chain capabilities. Competitors are generally more heavily focused on either smaller, sourced safes or large, domestically produced safes. Competitive domestic manufacturers run "blacksmith" type factories that are small, inefficient and require a tremendous amount of manual labor that produces inconsistent product. In addition, many of Liberty's

competitors are directly tied to a third-party brand, such as Browning, Winchester or RedHead / Bass Pro.

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Liberty competes with other safe manufacturers based on price, breadth of product line, technology, product supply chain capabilities and marketing capabilities.
Channel diversity in the premium home and gun safe industry is rare, with most companies having greater concentration in either the dealer channel or national accounts, but rarely having the supply chain capabilities or sales and marketing programs to service both channels effectively such as Liberty Safe does. Major competitors have limited sales and marketing departments and programs, making it difficult for them to expand sales and gain market share.
Suppliers
Liberty's primary raw materials are steel, sheetrock, wood, locks, handles and fabric, for which it receives multiple shipments per week. Materials, on average, account for approximately 60% of the total cost of a safe, with steel accounting for approximately 40% of material costs. Liberty purchases its materials from a combination of domestic and foreign suppliers. Historically, Liberty Safe has been able to pass on raw material price increases to its customers. Liberty purchased approximately 35 million pounds of steel in 2015 primarily from domestic suppliers, using contracts that lock in prices two to three fiscal quarters in advance. Liberty Safe purchases coiled and flat steel in gauges from four to fourteen. Liberty Safe specifies rigorous requirements related to surface and edge finish and grain direction. All steel products are checked to ASTM specification and dimensional tolerances before entering the production process.
Liberty Safe had approximately $7.1 million and $9.5 million in firm backlog orders at December 31, 2015 and 2014, respectively.
Intellectual Property
Liberty Safe relies upon a combination of patents and trademarks in order to secure and protect its intellectual property rights. Liberty Safe currently owns 32 trademarks and 4 patents on proprietary technologies for safe products.
Regulatory Environment
Liberty Safes' management believes that Liberty Safe is in compliance with applicable environmental and occupational health and safety laws and regulations. Liberty Safe has recently moved to a powder paint application in order to reduce hazardous VOC emissions.
Employees
As of December 31, 2015, Liberty Safe had 339 full-time employees and 157 temporary employees. Liberty's labor force is non-union. Management believes that Liberty Safe has an excellent relationship with its employees.

Manitoba Harvest
Overview

Headquartered in Winnipeg, Manitoba, Manitoba Harvest is a pioneer and leader in branded, hemp based foods. Manitoba Harvest's products, which Management believes are among the fastest growing in the natural foods industry, are currently carried in approximately 7,000 retail stores across the United States and Canada. Manitoba Harvest's hemp-exclusive, all natural product lineup includes hemp hearts, protein powder, hemp oil and snacks. As the world's largest vertically integrated hemp food manufacturer, Manitoba Harvest is involved in every aspect of the hemp production process, from "seed-to-shelf." All of Manitoba Harvest's products are an excellent source of plant-based protein and essential fatty acids, including omega-3, gamma-linolenic acid and stearidonic acid. The hemp-based food market is rapidly growing as consumers become aware of the unique combination of great taste and nutritional benefits of hemp-based foods. We purchased a majority interest in Manitoba Harvest on July 10, 2015.

On December 15, 2015, Manitoba Harvest acquired all of the outstanding stock of Hemp Oil Canada Inc. ("HOCI"). HOCI is a wholesale supplier and a private label packager of hemp food products and ingredients.

For the fiscal year ended December 31, 2015 (from date of acquisition), Manitoba Harvest had net sales of $17.4 million (C$23.1 million) and an operating loss of $6.2 million (C$8.2 million). Manitoba Harvest had total assets of

$146.7 million (C$205.4 million). Net sales from Manitoba Harvest (from date of acquisition to December 31, 2015) represented 2.2% of our consolidated

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net sales for the year ended December 31, 2015. Approximately 51% of Manitoba Harvest's gross sales were to customers in the United Sates and approximately 49% of gross sales were to customers within Canada. The remaining 1% of gross sales were primarily to customers in Mexico and Japan.

History

Founded in 1998 following the legalization of industrial hemp production in Canada, Manitoba Harvest has been an industry leader in the manufacture of the highest quality hemp food products while educating people on hemp nutrition. Manitoba Harvest initially sold the company's raw hemp seed and oil products in natural food stores with distribution and marketing efforts focused on promotion of consumer acceptance of hemp seeds as a food product. In 2001, Manitoba Harvest began selling their products at Whole Foods and Loblaws, one of Canada's largest supermarket chains, which allowed for expansion beyond natural food stores. As hemp food products continued to gain mainstream acceptance, Manitoba Harvest launched additional hemp based products, including a hemp protein powder line, a hemp smoothie line and hemp based snacks. Manitoba Harvest's facility in Winnipeg achieved organic certification in 2004 and non-GMO verification in 2009. Manitoba Harvest has the highest level of global certification in food safety and quality and is the first and only hemp-based food company to achieve British Retail Consortium Global Food Safety Initiative ("GFSI") certification. Leveraging its proven innovation capabilities and position as an industry leader, Manitoba Harvest is currently introducing new product formats with broad appeal, and expanding its retail channels, particularly grocery channels, to capitalize on strong demand from existing customers and to broaden its appeal to reach mainstream consumers. With the acquisition of HOCI, Manitoba Harvest has added a leading manufacturer and supplier of hemp food products and ingredients for a global customer base.

Industry

Hemp is the distinct oilseed and fiber varieties of the plant species Cannabis sativa L., a tall fibrous plant that has been cultivated worldwide for more than 10,000 years. The hemp crop was introduced to North American in the early 1600s, and it played an integral part in North America's early history as it was used as a material for various products including riggings and sails on naval ships, paper and fuel oil. Hemp is versatile, with diverse uses from food products to clothing, building materials, fuel and various other applications. As a food product, hemp is packed with essential nutrients such as protein, healthy fats, fiber, magnesium and all 10 essential amino acids.

As a crop, hemp is a low impact and environmentally sustainable resource that can be grown without pesticides or agricultural chemicals. Hemp is beneficial to the agricultural supply chain, aiding in weed suppression and soil building, making it a favored rotation crop. Hemp comes from the Cannabis sativa L. subspecies sativa, which is a different subspecies from that grown to produce marijuana, subspecies indica. Hemp contains 0.001% Tetrahydrocannabinol ("THC"). Although it is completely legal to further process and consume hemp-based food products in the U.S., it is currently illegal to cultivate hemp or process live seeds. As a result, United States marketers of hemp based products must import 100% of the hemp seed, oil and fiber that they need. However, the regulatory environment in the U.S. is slowly changing. The U.S. Agriculture Act of 2014 defined industrial hemp as distinct from marijuana and authorized institutions of higher learning and state agriculture departments to grow industrial hemp for research and agricultural pilot programs. As a result, certain states that have legalized hemp cultivation have begun to authorize farmers to plant and grow hemp for experimental purposes.

In Canada, the commercial cultivation of hemp was authorized in 1998 with the implementation of the Canadian Industrial Hemp Regulations, which governs the cultivation, processing, transportation, sale, import and export of industrial hemp. Since its legalization, hemp has garnered significant interest among Canadian farmers and the Canadian government has supported the industry through market development funding and a favorable regulatory environment. The Canadian agricultural industry views hemp as a valuable alternative crop that complements prairie crop production rotations and offers significant economic opportunity due to its numerous end uses.

Hemp based foods are considered a superfood that are rich in healthy fats and other important minerals; furthermore hemp seeds are an excellent dietary source of easily digestible plant based protein. The unique nutritional profile of hemp foods appeals to a broad base of modern diets, ranging from paleo to vegetarian diets. Manitoba Harvest broadly competes in the Nuts & Seeds and Protein Powder categories, which Nielsen estimates to be $4.4 billion and $540 million at retail, respectively. The Hemp Industries Association estimates that retail sales of hemp food and body care products in the United States totaled $200 million in 2014.

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Products

Manitoba Harvest is a global leader in branded, hemp-based foods. The Company's products are the fastest growing products in the hemp food market and among the fastest growing in the entire natural foods industry. The Company's hemp-exclusive, consumer-facing 100% all-natural product lineup includes Hemp Hearts, protein powder, and snacks. HOCI processes natural and organic hemp seed which are sold as hulled seed, hemp oil, hemp protein, toasted hemp seed and coarse hemp powder.

Hemp Hearts - Hemp Hearts are raw shelled hemp seeds and have a slightly nutty taste, similar to that of a sunflower seed or a pine nut. Hemp Hearts contain 10 grams of plant-based protein and 10 grams of omega essential fatty acids per 30 gram serving. Hemp Hearts can be used as a topping for yogurt, salads, cereal, as a component for smoothies and other meals, or eaten directly from the package. Manitoba Harvest offers Hemp Hearts in all-natural and organic varieties through a number of SKUs. Hemp Hearts are all-natural and non-GMO verified. Hemp Hearts represented approximately 70% of Manitoba Harvest's gross revenues in 2015.

Hemp Protein Powder - Manitoba Harvest offers a variety of plant based proteins that serve a multitude of culinary and dietary needs including Hemp Pro 70®, Hemp Pro 50®, Hemp Pro Fiber® and Hemp Protein Smoothie. Hemp Pro 70® is a hemp protein concentrate that is 65% protein by weight and high in omega essential fatty acids. Hemp Pro 70® is available in several flavors including vanilla and chocolate, which were introduced in 2014 as an extension of the protein powder product line. Hemp Pro 50® is a raw hemp protein powder that is 50% protein by weight and features a balance of protein and fiber. Hemp Pro 70 and Hemp Pro 50 are plant-based products that are great complements to fruit smoothies, while Hemp Pro Fiber is a great source of protein, essential fatty acids and other nutrients that also offers a high amount of fiber per serving. Hemp Pro Fiber® is raw hemp protein powder, but also offers 52% of the daily recommended fiber intake. Hemp Pro Fiber is a versatile product that can be blended into smoothies, added to yogurt and hot cereal, or incorporated into baking products. Hemp Protein Smoothie was launched in 2015 and is a plant-based nutritional powder that includes 15 grams of protein and 2.6 grams of omega essential fatty acids per 30 gram serving, and is designed to mix easily into smoothies and other drinks. Manitoba Harvest offers hemp protein products in all-natural and organic varieties, and all protein powders are non-GMO verified. Hemp protein powders represent approximately 20% of Manitoba Harvest's gross revenue in 2015.

Hemp Snacks and Other Products - During 2015, Manitoba Harvest expanded their product lines with the introduction of Hemp Heart Bites, a convenient, bite sized crunchy snack product, and Hemp Heart Bars, which Manitoba Harvest believes will appeal to the mainstream consumer by featuring a simple and clean ingredient list that contains 10.5 grams of plant based protein and 10 grams of omega essential fatty acids per 45 gram serving. These products were launched in response to demand from existing consumers for a convenient, hemp based food product. Manitoba Harvest's other products include Hemp Oil, in both liquid and soft-gel formats, and Hemp Bliss, an organic non-dairy beverage. Hemp oil is a cold-pressed oil with no preservatives or artificial colors and is commonly used as a low heat culinary oil or as an ingredient in dressings or sauces. Hemp snacks, Hemp oil and Hemp Bliss comprised approximately 10% of Manitoba Harvest's gross revenues in 2015.

Competitive Strengths

Leading Brand Recognition & Market Share - Manitoba Harvest is an award winning pioneer and the global leader in branded, hemp based foods. Consumer awareness of hemp based foods and the Manitoba Harvest brand continues to grow rapidly. Manitoba Harvest has developed considerable brand equity with a growing, highly-loyal, and very passionate consumer following. Consumers tend to be extremely loyal after incorporating Manitoba Harvest's hemp foods into their lifestyle. Management believes that Manitoba Harvest holds more than 50% of the market share of hemp heart seed sales and hemp protein powder sales in North America.

Strong Core Consumer Base - The core consumer demographic for Manitoba Harvest's products is Naturalites, consumers who generally prefer all natural products; and consumers who focus on practicing a lifestyle of health and sustainability ("LOHAS"). Among its core consumer base, hemp-based foods have a high level of awareness and Manitoba Harvest possesses a high level of brand recognition among this consumer segment. Consumers tend to be extremely loyal after incorporating Manitoba Harvest's hemp foods into their lifestyle. Consumers develop a bond with the Manitoba Harvest brand and appreciate that Manitoba Harvest seeks to positively impact the community and the environment with its actions. Manitoba Harvest is a registered B-Corporation. As a B-Corporation, Manitoba Harvest is dedicated to creating a general public benefit, which is defined as having a material positive impact on society and the environment. Through its actions, Manitoba Harvest inspires consumers to "live the brand" and lead happier and healthier lives.

Vertically Integrated Supply Chain with Long-Term Relationships with Suppliers - Manitoba Harvest enjoys strong relationships with hemp farmers, some dating back to their inception in 1998. Manitoba Harvest has a rigorous qualification process for its suppliers which includes an ongoing supplier scorecard and chooses to purchase hemp seeds from only the highest

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quality growers. With limited exception, farmers working with Manitoba Harvest are exclusive to them. In North America, hemp is only grown commercially in Canada and Manitoba Harvest accounts for more than 60% of the hemp supply, minimizing risk and ensuring quality hemp seeds for their product. The majority of Canada's hemp supply outside of Manitoba Harvest's business goes into ingredient and wholesale markets, making Manitoba Harvest the only vertically-integrated, branded hemp-based food company in North America.

Business Strategies

Manitoba Harvest's management believes it is well positioned for continued topline growth. As consumer awareness of and demand for hemp based foods increases, Manitoba Harvest will continue to leverage its market leadership and strong brand awareness to grow through existing customers, broadened distribution, new product launches, and expanded ingredients business.

Increasing consumer awareness - Manitoba Harvest was founded with the mission to educate consumers on the health and environmental benefits of hemp-based food products and has taken a grassroots approach to educating consumers. Management estimates that its team interacts directly with more than 500,000 consumers annually, and distributed approximately two million samples to consumers during 2015. In addition to sampling, Manitoba Harvest is driving consumer awareness through existing customer accounts by increasing its investment in in-store displays and product demos, particularly in the United States at retail accounts where consumers are less familiar with the benefits of hemp foods. Additionally, Manitoba Harvest partners with certain retailers to increase consumer awareness. Manitoba Harvest and Whole Foods Market are co-sponsors of Hemp History Week, an annual event that features hundreds of product demonstrations and promotional events throughout the United States aimed at increasing consumer exposure to hemp based foods.

Continued growth with existing customers - Manitoba Harvest expects to grow same store sales with existing customers by expanding the presence of their products on the shelf throughout stores through the introduction of new formats, improved retail product placement and increased investment in merchandising. Manitoba Harvest also partners with its retail customers to develop new, consumer-centric products, such as the 2015 introduction of the hemp protein smoothie at a large Canadian retailer.

Expansion into new customers - Management believes it has significant opportunity to enter new grocery customers in the mainstream grocery channel, both in Canada and the United States. The grocery channels in both the United States and Canada have experienced significant sales growth in all-natural and organic product categories while sales in traditional product categories have been flat or decreased. Manitoba Harvest recently expanded its direct sales team to improve access and engagement with key retail accounts, adding additional brand ambassadors/ and territory managers for the purpose of expanding distribution with mainstream U.S. grocery chains by capitalizing on traditional US grocer emphasis on selling products that align with broad based consumer demand for healthy eating.

Continued innovation and new product development - Product innovation through new products and new packaging formats is a key component of Manitoba Harvest's growth strategy. In 2015, the company introduced the Hemp Protein Smoothie product and a snack product line including Hemp Heart Bites and Hemp Heart Bars. Management plans to continue to innovate on existing product lines through new formats and flavors as well as continued development of new product categories to broaden customer appeal and increase the number of hemp food usage occasions.

Expanded ingredient business - With the acquisition of HOCI on December 15, 2015, Manitoba Harvest has added a leading manufacturer and supplier of hemp food products and ingredients. As hemp-based food usage continues to become more widely adopted, management believes the strategic acquisition of HOCI has positioned the company to capitalize on the growing opportunity to be the ingredient supplier of choice to other leading food manufacturers in complementary food product categories.

Research and Development

Manitoba Harvest competes in the natural products industry which is characterized by research and development which yields food product innovations that contribute to human wellness and sustainable development. The scope of research and development is focused on new product development, product enhancement, process design and improvement, packaging, and meeting the needs of the expanding international business. The continued growth of Manitoba Harvest and ongoing partnerships with industry and government has enabled the company to fund research with universities to support the expansion of peer reviewed publications on the benefits of hemp food products. Additionally, Management utilizes analytics to manage the evolution of its relationships with its customers, and conducts consumer research during early stages of new product development initiatives in order to identify key success factors. Manitoba Harvest spent approximately $0.1 million on research and development during 2015 (post acquisition).

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Customers and Distributions Channels

Manitoba Harvest sells its products through three primary retail channels -natural foods, club and grocery. After initially establishing the authenticity of its brand and products in the natural channel at retailers such as Whole Foods Markets and Sprouts, Manitoba Harvest expanded into the club and grocery channel, initially in Canada, and then in the United States and internationally. HOCI sells their hemp food products and ingredients to value-added manufacturers to be used in hemp cereals, hemp milk, nutrition and protein bars and powders, baked goods and salad dressings.

Manitoba Harvest's three largest customers accounted for approximately 63% of total sales during 2015 (post acquisition).

Sales and Marketing
Manitoba Harvest grows sales within existing retail partners by educating and engaging potential customers through in-store demos, consumer events and sampling.
Sales Organization - Manitoba Harvest’s sales organization consists of sales professionals with direct sales coverage of over 2,000 retail locations. The sales force is led by the Vice President of sales and consists of sales managers, territory managers and brand ambassadors dedicated to specific regions in Canada and the United States. Manitoba Harvest’s sales force is focused on the natural, club and grocery channels, through direct key account coverage and winning sales through a focus on data for category and customer management. In addition to direct sales, the company uses a network of distributors to service many of its customers.

Marketing - Manitoba Harvest focuses the majority of marketing spend in three key areas: demonstrations/sampling, fixed trade spending and promotions. Successful product demonstrations within the club and grocery channels have helped drive increased sales productivity. Manitoba Harvest utilizes fixed trade spending to secure end-cap positions, ad space and off-shelf displays at various retailers. Additionally, they strategically utilize promotions to position its products in prime display space at retailers. To drive future growth, Manitoba Harvest plans to increase spending on demonstrations and sampling - for example the company distributed two million Hemp Hearts, hemp protein powder, Hemp Heart Bites, and Hemp Heart Bars samples in 2015 alone.

Competition
The emerging hemp foods category has a limited number of participants that offer a minimal number of hemp based products while focusing on a broader assortment of food items. Competition is limited due to restricted raw hemp seed access in the United States. Manitoba Harvest’s strong supplier relationships, regulated access to hemp seeds and deep knowledge of the growing and harvesting of hemp afford the company with a unique competitive advantage.

Manitoba Harvest has the highest level of global certification in food safety and quality and is the first and only hemp-based food company to achieve British Retail Consortium (“BRC”) Global Food Safety Initiative certification.

Suppliers

Manitoba Harvest and HOCI are strategically located near their supply of hemp in Canada, the only North American country where it is currently legal to grow hemp. The commercial cultivation of hemp was authorized in 1998 with the implementation of the Canadian Industrial Hemp Regulations, which governs the cultivation, processing, transportation, sale, import and export of industrial hemp. Industrial hemp is viewed by the Canadian and agricultural industry as a valuable new alternative crop that complements prairie crop production rotations and offers significant economic opportunity through numerous end uses. The province of Manitoba and its surrounding prairie area have emerged as a leading region for growing hemp due to the ideal agricultural characteristics of the prairie provinces; a long growing season, sufficient moisture levels, and supportive local governments that view hemp as a strategic crop.

The adaptability of hemp makes it ideal for areas of the provinces that have limited cropping options and where high value crops such as edible beans and sunflowers are considered high risk.

Based on its close proximity to many of its growers, Manitoba Harvest has developed longstanding relationships with hemp suppliers and currently maintains relationships that provide access to over 60% of the hemp acreage in Canada. Manitoba Harvest has a rigorous qualification process for its suppliers; maintaining an ongoing supplier scorecard and choosing to purchase hemp from high quality growers. With limited exception, farmers working with Manitoba Harvest are exclusive to them. Manitoba Harvest works with approximately 110 conventional hemp growers (48,750 acres), approximately 20 organic growers (9,990 acres), and 11 seed cleaners. As early leaders of the hemp legalization movement, Manitoba Harvest's founders have developed in-house expertise on the plant, which they share with their hemp grower partners to help them achieve optimal yield and quality harvests.

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Manitoba Harvest processes 100% of its Hemp Hearts, hemp oil and protein powder at its dedicated hemp food products manufacturing facility. Manitoba Harvest has leveraged nearly two decades of hemp food manufacturing expertise and has worked with research scientists to develop proprietary processing technology that is specific to hemp. Their facility in Winnipeg is 32,000 square feet and has an annual processing capacity of 35 million pounds of hemp seed. With the acquisition of HOCI in December 2015, Manitoba Harvest added a newly constructed 35,000 square foot facility capable of processing 50 million pounds of hemp seed.

Intellectual Property

Manitoba Harvest relies on brand name recognition and premium natural and organic offerings in the hemp food market to differentiate itself from the competition. Manitoba Harvest holds several trademark registrations in multiple jurisdictions, primarily the United States and Canada.

Regulatory Environment

Management is not aware of any existing, pending or contingent liabilities that could have a material adverse effect on Manitoba Harvest's business. Manitoba Harvest 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, 2015, Manitoba Harvest employed approximately 140 persons. None of Manitoba Harvest employees are subject to collective bargaining agreements. Manitoba Harvest believes its relationship with its employees is good.

Niche Industrial Businesses

Advanced Circuits

Overview

Advanced Circuits, headquartered in Aurora, Colorado, is a provider of small-run, quick-turn and production rigid PCBs, throughout the United States. Advanced Circuits also provides its customers with assembly services in order to meet its customers' complete PCB needs. The small-run and quick-turn portions of the PCB industry are characterized by customers requiring high levels of responsiveness, technical support and timely delivery. Due to the critical roles that PCBs play in the research and development process of electronics, customers often place more emphasis on the turnaround time and quality of a customized PCB than on the price. Advanced Circuits meets this market need by manufacturing and delivering custom PCBs in as little as 24 hours, providing customers with over 98% error-free production and real-time customer service and product tracking 24 hours per day. In each of the years 2015, 2014 and 2013, over 60% of Advanced Circuits' sales were derived from highly profitable small-run and quick-turn production PCBs. Advanced Circuits' success is demonstrated by its broad base of over 11,000 customers with which it does business throughout the year.

For the full fiscal years ended December 31, 2015, 2014 and 2013, Advanced Circuits had net sales of approximately $87.5 million, $85.9 million and $87.4 million, respectively, and operating income of $24.1 million, $22.5 million and $22.9 million, respectively. Advanced Circuits had total assets of $80.6 million and $82.1 million at December 31, 2015 and 2014, respectively. Net sales from Advanced Circuits represented 10.9%, 12.2% and 11.8% of our consolidated net sales for the years 2015, 2014 and 2013, respectively.

History of Advanced Circuits

Advanced Circuits commenced operations in 1989 through the acquisition of a small Denver based PCB manufacturer, Seiko Circuits. During its first years of operations, Advanced Circuits focused exclusively on manufacturing high volume, production run PCBs with a small group of proportionately large customers. In 1992, after the loss of a significant customer, Advanced Circuits made a strategic shift to limit its dependence on any one customer. As a result, Advanced Circuits began focusing on developing a diverse customer base, and in particular, on meeting the demands of equipment manufacturers with low volume, high margin, customized small-run and quick-turn PCBs.

In 1997, Advanced Circuits increased its capacity and consolidated its facilities into its current headquarters in Aurora, Colorado. In 2003, to support its growth, Advanced Circuits expanded its PCB manufacturing facility by approximately 37,000 square feet

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or approximately 150%. In 2013 Advanced Circuits added approximately 50,000 square feet and moved its administrative and engineering group next door to its production facilities.

In March 2010, Advanced Circuits acquired Circuit Express, Inc. ("CEI") for approximately $16.1 million. Based in Tempe, Arizona and founded in 1987, CEI focuses on quick-turn and small-run manufacturing of rigid PCBs primarily for aerospace and defense related industry customers. CEI also specializes in expedited delivery in as fast as 24 hours.

On May 23, 2012, Advanced Circuits acquired Universal Circuits, Inc. ("UCI") for approximately $2.3 million. UCI supplies PCBs to major military, aerospace, and medical original equipment manufacturers and contract manufacturers. UCI's Minnesota facility meets certain Department of Defense clearance requirements and is noted for custom and advanced technologies. Universal Circuits' sales are primarily in the long-lead sector.

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

Industry

The PCB industry, which consists of both large global PCB manufacturers and small regional PCB manufacturers, is a vital component to all electronic equipment supply chains, as PCBs serve as the foundation for virtually all electronic products, including cellular telephones, appliances, personal computers, routers, switches and network servers. PCBs are used by manufacturers of these types of electronic products, as well as by persons and teams engaged in research and development of new types of equipment and technologies.

Production of PCBs in North America has declined since 2000 and was flat in fiscal 2014, with a less than 1% decrease as compared to 2013, according to the IPC 2014 Analysis. Orders for the fourth quarter of 2014 increased as compared to the fourth quarter in 2013, indicating that 2015 North American PCB production should have modest growth compared to 2014. The rapid decline in United States production was caused by (i) reduced demand for and spending on PCBs following the technology and telecom industry decline in early 2000; and (ii) increased competition for volume production of PCBs from Asian competitors benefiting from both lower labor costs and less restrictive waste and environmental regulations. While Asian manufacturers have made large market share gains in the PCB industry overall, small-run and quick-turn production, some of the more complex volume production and military production have remained strong in the United States.

Both globally and domestically, the PCB market can be separated into three categories based on required lead time and order volume:

- Small-run PCBs — These PCBs are typically manufactured for customers in research and development departments of original equipment manufacturers, or OEMs, and academic institutions. Small-run PCBs are manufactured to the specifications of the customer, within certain manufacturing guidelines designed to increase speed and reduce production costs. Prototyping is a critical stage in the research and development of new products. These small-runs are used in the design and launch of new electronic equipment and are typically ordered in volumes of 1 to 50 PCBs. Because the small-run is used primarily in the research and development phase of a new electronic product, the life cycle is relatively short and requires accelerated delivery time frames of usually less than five days and very high, error-free quality. Order, production and delivery time, as well as responsiveness with respect to each, are key factors for customers as PCBs are indispensable to their research and development activities.
- Quick-Turn Production PCBs — These PCBs are used for intermediate stages of testing for new products prior to full scale production. After a new product has successfully completed the small-run phase, customers undergo test marketing and other technical testing. This stage requires production of larger quantities of PCBs in a short period of time, generally 10 days or less, while it does not yet require high production volumes. This transition stage between low-volume small-run production and volume production is known as quick-turn production. Manufacturing specifications conform strictly to end product requirements and order quantities are typically in volumes of 10 to 500. Similar to small-run PCBs, response time remains crucial as the delivery of quick-turn PCBs can be a gating item in the development of electronic products. Orders for quick-turn production PCBs conform specifically to the customer's exact end product requirements.
- Volume Production PCBs — These PCBs, which we sometimes refer to as "long lead" and "sub-contract" are used in the full scale production of electronic equipment and specifications conform strictly to end product requirements. Volume Production PCBs are ordered in large quantities, usually over 100 units, and response time is less important, ranging

between 15 days to 10 weeks or more.

These categories can be further distinguished based on board complexity, with each portion facing different competitive threats. Advanced Circuits competes largely in the small-run and quick-turn production portions of the North American market, which have not been significantly impacted by Asian based manufacturers due to the quick response time required for these products. Management believes the North American PCB market is estimated to be approximately $3.5 billion in 2015.

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Several significant trends are present within the PCB manufacturing industry, including:

- Increasing Customer Demand for Quick-Turn Production Services — Rapid advances in technology are significantly shortening product life-cycles and placing increased pressure on OEMs to develop new products in shorter periods of time. In response to these pressures, OEMs invest heavily in research and development, which results in a demand for PCB companies that can offer engineering support and quick-turn production services to minimize the product development process.
- Increasing Complexity of Electronic Equipment — OEMs are continually designing more complex and higher performance electronic equipment, requiring sophisticated PCBs. To satisfy the demand for more advanced electronic products, PCBs are produced using exotic materials and increasingly have higher layer counts and greater component densities. Maintaining the production infrastructure necessary to manufacture PCBs of increasing complexity often requires significant capital expenditures and has acted to reduce the competitiveness of local and regional PCB manufacturers lacking the scale to make such investments.
- Shifting of High Volume Production to Asia — Asian based manufacturers of PCBs are capitalizing on their lower labor costs and are increasing their market share of volume production of PCBs used, for example, in high-volume consumer electronics applications, such as personal computers and cell phones. Asian based manufacturers have been generally unable to meet the lead time requirements for small-run or quick-turn PCB production or the volume production of the most complex PCBs. This “off shoring” of high-volume production orders has placed increased pricing pressure and margin compression on many small domestic manufacturers that are no longer operating at full capacity. Many of these small producers are choosing to cease operations, rather than operate at a loss, as their scale, plant design and customer relationships do not allow them to focus profitably on the small-run and quick-turn sectors of the market.

Products and Services

A PCB is comprised of layers of laminate and contains patterns of electrical circuitry to connect electronic components. Advanced Circuits typically manufactures 2 to 20 layer PCBs, and has the capability to manufacture up even higher layer PCBs. The level of PCB complexity is determined by several characteristics, including size, layer count, density (line width and spacing), materials and functionality. Beyond complexity, a PCB’s unit cost is determined by the quantity of identical units ordered, as engineering and production setup costs per unit decrease with order volume, and required production time, as longer times often allow increased efficiencies and better production management. Advanced Circuits primarily manufactures lower complexity PCBs.

To manufacture PCBs, Advanced Circuits generally receives circuit designs from its customers in the form of computer data files emailed to one of its sales representatives or uploaded on its interactive website. These files are then reviewed to ensure data accuracy and product manufacturability. While processing these computer files, Advanced Circuits generates images of the circuit patterns that are then physically developed on individual layers, using advanced photographic processes. Through a variety of plating and etching processes, conductive materials are selectively added and removed to form horizontal layers of thin circuits, called traces, which are separated by insulating material. A finished multilayer PCB laminates together a number of layers of circuitry. Vertical connections between layers are achieved by metallic plating through small holes, called vias. Vias are made by highly specialized drilling equipment capable of achieving extremely fine tolerances with high accuracy.

Advanced Circuits assists its customers throughout the life-cycle of their products, from product conception through volume production. Advanced Circuits works closely with customers throughout each phase of the PCB development process, beginning with the PCB design verification stage using its unique online FreeDFM.com tool, FreeDFM.com,™ which was launched in 2002, enables customers to receive a free manufacturability assessment report within minutes, resolving design problems that would prohibit manufacturability before the order process is completed and manufacturing begins. The combination of Advanced Circuits’ user-friendly website and its design verification tool reduces the amount of human labor involved in the manufacture of each order as PCBs move from Advanced Circuits’ website directly to its computer numerical control, or CNC, machines for production, saving Advanced Circuits and customers cost and time. As a result of its ability to rapidly and reliably respond to the critical customer requirements, Advanced Circuits receives a premium for their small-run and quick-turn PCBs as compared to volume production

PCBs.

Advanced Circuits manufactures all high margin small-runs and quick-turn orders internally but often utilizes external partners to manufacture production orders that do not fit within its capabilities or capacity constraints at a given time. As a result, Advanced Circuits constantly adjusts the portion of volume production PCBs produced internally to both maximize profitability and ensure that internal capacity is fully utilized.

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The following table shows Advanced Circuits' gross revenue by products and services for the periods indicated:

Gross Sales by Products and Services [1]	Year Ended December 31,					
	2015		2014		2013	
Small-run Production	22.5	%	23.5	%	24.3	%
Quick-Turn Production	31.0	%	31.3	%	30.6	%
Volume Production (including assembly)	46.0	%	44.9	%	44.7	%
Third Party	0.5	%	0.3	%	0.4	%
Total	100.0	%	100.0	%	100.0	%

[1] As a percentage of gross sales, exclusive of sale discounts.

Competitive Strengths

Advanced Circuits has established itself as a leading provider of small-run and quick-turn PCBs in North America and focuses on satisfying customer demand for on-time delivery of high-quality PCBs. Advanced Circuits' management believes the following factors differentiate it from many industry competitors:

- Numerous Unique Orders Per Day — For the year ended December 31, 2015, Advanced Circuits received on average over 300 customer orders per day. Due to the large quantity of orders received, Advanced Circuits is able to combine multiple orders in a single panel design prior to production. Through this process, Advanced Circuits is able to reduce the number of costly, labor intensive equipment set-ups required to complete several manufacturing orders. As labor represents the single largest cost of production, management believes this capability gives Advanced Circuits a unique advantage over other industry participants. Advanced Circuits maintains proprietary software that maximizes the number of units placed on any one panel design. A single panel set-up typically accommodates 1 to 12 orders. Further, as a "critical mass" of like orders is required to maximize the efficiency of this process, management believes Advanced Circuits is uniquely positioned as an efficient manufacturer of small-run and quick-turn PCBs.
- Diverse Customer Base — Advanced Circuits possesses a customer base with little industry or customer concentration exposure. During fiscal year ended December 31, 2015, Advanced Circuits did business with over 11,000 customers and added over 180 new customers per month. For each of the years ended December 31, 2015, 2014 and 2013, no customer represented over 2% of net sales.
- Highly Responsive Culture and Organization — A key strength of Advanced Circuits is its ability to quickly respond to customer orders and complete the production process. In contrast to many competitors that require a day or more to offer price quotes on small-run or quick-turn production, Advanced Circuits offers its customers quotes within seconds and the ability to place or track orders any time of day. In addition, Advanced Circuits' production facility operates three shifts per day and is able to ship a customer's product within 24 hours of receiving its order.
- Proprietary FreeDFM.com Software — Advanced Circuits offers its customers unique design verification services through its online FreeDFM.com tool. This tool, which was launched in 2002, enables customers to receive a free manufacturability assessment report, within minutes, resolving design problems before customers place their orders. The service is relied upon by many of Advanced Circuits' customers to reduce design errors and minimize production costs. Beyond improved customer service, FreeDFM.com has the added benefit of improving the efficiency of Advanced Circuits' engineers, as many routine design problems, which typically require an engineer's time and attention to identify, are identified and sent back to customers automatically.
- Established Partner Network — Advanced Circuits has established third party production relationships with PCB manufacturers in North America and Asia. Through these relationships, Advanced Circuits is able to offer its customers a complete suite of products including those outside of its core production capabilities. Additionally, these relationships allow Advanced Circuits to outsource orders for volume production and focus internal capacity on higher margin, short lead time, production and quick-turn manufacturing.

Business Strategies

Advanced Circuits' management is focused on strategies to increase market share and further improve operating efficiencies. The following is a discussion of these strategies:

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Increase Portion of Revenue from Small-run and Quick-Turn Production — Advanced Circuits' management believes it can grow revenues and cash flow by continuing to leverage its core small-run and quick-turn capabilities. Over its history, Advanced Circuits has developed a suite of capabilities that management believes allow it to offer a combination of price and customer service unequaled in the market. Though reductions in military spending have created headwinds recently, Advanced Circuits intends to leverage this factor, as well as its core skill set, to increase net sales derived from higher margin small-run and quick-turn production PCBs. In this respect, marketing and advertising efforts focus on attracting and acquiring customers that are likely to require these premium services. And while production composition may shift, growth in these products and services is not expected to come at the expense of declining sales in volume production PCBs, as Advanced Circuits intends to leverage its extensive network of third-party manufacturing partners to continue to meet customers' demand for these services.

Acquire Customers from Local and Regional Competitors — Advanced Circuits' management believes the majority of its competition for small-run and quick-turn PCB orders comes from smaller scale local and regional PCB manufacturers. As an early mover in the small-run and quick-turn sector of the PCB market, Advanced Circuits has been able to grow faster and achieve greater production efficiencies than many industry participants. Management believes Advanced Circuits can continue to use these advantages to gain market share. Further, Advanced Circuits continues to enter into small-run and quick-turn manufacturing relationships with several subscale local and regional PCB manufacturers. Management believes that while many of these manufacturers maintain strong, longstanding customer relationships, they are unable to produce PCBs with short turn-around times at competitive prices. As a result, Advanced Circuits sees an opportunity for growth by providing production support to these manufacturers or direct support to the customers of these manufacturers, whereby the manufacturers act more as a broker for the relationship.

Remain Committed to Customers and Employees — Advanced Circuits has remained focused on providing the highest quality products and services to its customers. We believe this focus has allowed Advanced Circuits to achieve its outstanding delivery and quality record. Advanced Circuits' management believes this reputation is a key competitive differentiator and is focused on maintaining and building upon it. Similarly, management believes its committed base of employees is a key differentiating factor. Advanced Circuits currently has a profit sharing program and tri-annual bonuses for all of its employees. Management also occasionally sets additional performance targets for individuals and departments and establishes rewards, such as lunch celebrations or paid vacations, if these goals are met. Management believes that Advanced Circuits' emphasis on sharing rewards and creating a positive work environment has led to increased loyalty. Advanced Circuits plans to continue to focus on similar programs to maintain this competitive advantage.

Opportunistically Acquire Smaller PCB Manufacturers — Historically Advanced Circuits has selectively made tuck-in acquisitions of regional PCB manufacturers, including the acquisitions of Circuit Express, Inc. in 2010 and Universal Circuits, Inc. in 2012. Management will continue to seek tuck-in acquisitions of smaller PCB manufacturers where sales and operational efficiencies can be realized, or strategic technical capabilities expanded.

Research and Development

Advanced Circuits engages in continual research and development activities in the ordinary course of business to update or strengthen its order processing, production and delivery systems. By engaging in these activities, Advanced Circuits expects to maintain and build upon the competitive strengths from which it benefits currently. Research and development expenses were not material in each of the last three years.

Customers

Advanced Circuits' focus on customer service and product quality has resulted in a broad base of customers in a variety of end markets, including industrial, consumer, telecommunications, aerospace/defense, biotechnology and electronics manufacturing. These customers range in size from large, blue-chip manufacturers to small, not-for-profit university engineering departments. The following table sets forth management's estimate of Advanced Circuits' approximate customer breakdown by industry sector for the fiscal years ended December 31, 2015, 2014 and 2013:

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	Customer Distribution					
Industry Sector	2015		2014		2013	
Electrical Equipment and Components	23	%	22	%	24	%
Measuring Instruments	6	%	5	%	7	%
Electronics Manufacturing Services	25	%	24	%	22	%
Engineer Services	3	%	5	%	4	%
Industrial and Commercial Machinery	10	%	11	%	12	%
Business Services	1	%	1	%	1	%
Wholesale Trade-Durable Goods	1	%	1	%	1	%
Educational Institutions	15	%	14	%	12	%
Transportation Equipment	10	%	11	%	10	%
All Other Sectors Combined	6	%	6	%	7	%
Total	100	%	100	%	100	%

Management estimates that over 90% of its orders are generated from existing customers. Moreover, more than half of Advanced Circuits' orders in each of the years 2015, 2014 and 2013 were delivered within five days (not including CEI orders). In a typical year, no single customer represents more than 2% of Advanced Circuits' sales, although in 2013, one customer represented approximately 4.5% of Advanced Circuit's sales.

Sales and Marketing

Advanced Circuits has established a "consumer products" marketing strategy to both acquire new customers and retain existing customers. Advanced Circuits uses initiatives such as direct mail postcards, web banners, aggressive pricing specials and proactive outbound customer call programs as part of this strategy. Advanced Circuits spends approximately 1% of net sales each year on its marketing initiatives and advertising and has 48 employees dedicated to its marketing and sales efforts. These individuals are organized geographically and each is responsible for a region of North America. The sales team takes a systematic approach to placing sales calls and receiving inquiries and, on average, will place over 200 outbound sales calls and receive approximately 140 inbound phone inquiries per day. Beyond proactive customer acquisition initiatives, management believes a substantial portion of new customers are acquired through referrals from existing customers. In addition, other customers are acquired on-line where Advanced Circuits generates over 90% of its orders from its website.

Once a new client is acquired, Advanced Circuits offers an easy to use customer-oriented website and proprietary online design and review tools to ensure high levels of retention. By maintaining contact with its customers to ensure satisfaction with each order, Advanced Circuits believes it has developed strong customer loyalty, as demonstrated by over 90% of its orders being received from existing customers. Included in each customer order is an Advanced Circuits prepaid "bounce-back" card on which a customer can evaluate Advanced Circuits' services and send back any comments or recommendations. Each of these cards is read by senior members of management, and Advanced Circuits adjusts its services to respond to the requests of its customer base.

Substantially all revenue is derived from sales within the United States.

Advanced Circuits, due to the volume of small-run and quick turn sales, had a negligible amount in firm backlog orders at December 31, 2015 and 2014.

Competition

There are currently an estimated 238 active domestic PCB manufacturers. Advanced Circuits' competitors differ amongst its products and services.

Competitors in the small-run and quick-turn PCBs production industry include larger companies as well as small domestic manufacturers. The two largest independent domestic small-run and quick-turn PCB manufacturers in North America are TTM Technologies, Inc. and Viasystems Group, Inc. Though each of these companies produces small-run PCBs to varying degrees, in many ways they are not direct competitors with Advanced Circuits. In recent years, each of these firms has primarily focused on producing boards with greater complexity in response to the off shoring of low and medium layer count technology to Asia. Compared to Advanced Circuits, small-run and quick-turn PCB production accounts for much smaller portions of each of these firm's revenues. Further, these competitors often have much greater customer concentrations and a greater portion of sales through large electronics manufacturing

services intermediaries. Beyond large, public companies, Advanced Circuits' competitors include

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numerous small, local and regional manufacturers, often with revenues under $20 million that have long-term customer relationships and typically produce both small-run and quick-turn PCBs and production PCBs for small OEMs and EMS companies. The competitive factors in small-run and quick-turn production PCBs are response time, quality, error-free production and customer service. Competitors in the long lead-time production PCBs generally include large companies, including Asian manufacturers, where price is the key competitive factor.

New market entrants into small-run and quick-turn production PCBs confront substantial barriers including significant investments in equipment, highly skilled workforce with extensive engineering knowledge and compliance with environmental regulations. Beyond these tangible barriers, Advanced Circuits' management believes that its network of customers, established over the last two decades, would be very difficult for a competitor to replicate.

Suppliers

Advanced Circuits' raw materials inventory is small relative to sales and must be regularly and rapidly replenished. Advanced Circuits uses a just-in-time procurement practice to maintain raw materials inventory at low levels. Additionally, Advanced Circuits has established consignment relationships with several vendors allowing it to pay for raw materials as used. Because it provides primarily lower-volume quick-turn services, this inventory policy does not hamper its ability to complete customer orders. Raw material costs constituted approximately 20%, 20% and 21% of net sales for each of the fiscal years ended December 31, 2015, 2014 and 2013, respectively.

The primary raw materials that are used in production are core materials, such as copper clad layers of glass and chemical solutions, and copper and gold for plating operations, photographic film and carbide drill bits. Multiple suppliers and sources exist for all materials. Adequate amounts of all raw materials have been available in the past, and Advanced Circuits' management believes this will continue in the foreseeable future. Advanced Circuits works closely with its suppliers to incorporate technological advances in the raw materials they purchase. Advanced Circuits does not believe that it has significant exposure to fluctuations in raw material prices. The fact that price is not the primary factor affecting the purchase decision of many of Advanced Circuits' customers has allowed management to historically pass along a portion of raw material price increases to its customers. Advanced Circuits does not knowingly purchase material originating in the Democratic Republic of the Congo or adjoining countries.

Intellectual Property

Advanced Circuits seeks to protect certain proprietary technology by entering into confidentiality and non-disclosure agreements with its employees, consultants and customers, as needed, and generally limits access to and distribution of its proprietary information and processes. Advanced Circuits' management does not believe that patents are critical to protecting Advanced Circuits' core intellectual property, but, rather, its effective and quick execution of fabrication techniques, its website FreeDFM.com™ and its highly skilled workforce are the primary factors in maintaining its competitive position.

Advanced Circuits uses the following brand names: FreeDFM.com,™ 4pcb.com,™ 4PCB.com,™ 33each.com,™ barebonespcb.com™ and Advanced Circuits.™ These trade names have strong brand equity and are material to Advanced Circuits' business.

Regulatory Environment

Advanced Circuits' manufacturing operations and facilities are subject to evolving federal, state and local environmental and occupational health and safety laws and regulations. These include laws and regulations governing air emissions, wastewater discharge and the storage and handling of chemicals and hazardous substances. Management believes that Advanced Circuits is in compliance, in all material respects, with applicable environmental and occupational health and safety laws and regulations. New requirements, more stringent application of existing requirements, or discovery of previously unknown environmental conditions may result in material environmental expenditures in the future. Advanced Circuits has been recognized three times for exemplary environmental compliance as it was awarded the Denver Metro Wastewater Reclamation District Gold Award for the seven of the last ten years.

Employees

As of December 31, 2015, Advanced Circuits employed 517 persons. None of Advanced Circuits' employees are subject to collective bargaining agreements. Advanced Circuits believes its relationship with its employees is good.

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Arnold

Overview

Founded in 1895 and now headquartered in Rochester, New York, Arnold Magnetic Technologies Corporation is a manufacturer of engineered, application specific magnet solutions. Arnold manufactures a wide range of permanent magnets and precision magnetic assemblies with facilities in the United States, the United Kingdom, Switzerland and China. Arnold has hundreds of customers in its primary markets including aerospace and defense, consumer, industrial, medical, automotive as well as oil and gas exploration. Arnold is the largest and, we believe, most technically advanced U.S. manufacturer of engineered magnets. Arnold is one of two domestic producers to design, engineer and manufacture rare earth magnetic solutions. Arnold serves customers and generates revenues via three business units:

- PMAG – Permanent Magnet and Assemblies Group- High performance magnets and assemblies for precision motors/generators, Hall Effect sensor and beam focusing applications. PMAG also manufactures assemblies for the reprographic industry used in printing and copying systems.
- Precision Thin Metals - Ultra thin gauge metal strip and foil products utilizing magnetic and non-magnetic alloys
- Flexmag™ - Flexible bonded magnets for specialty advertising, industrial and medical applications.

Arnold operates a 70,000 sq. ft. manufacturing assembly and distribution facility in Rochester, New York with nine additional facilities worldwide in countries including the UK, Switzerland and China.

For the fiscal year ended December 31, 2015, 2014 and 2013, Arnold had net sales of approximately $120.0 million, $123.2 million and $126.6 million, respectively, with operating income of $7.6 million in 2015, $7.1 million in 2014 and $8.9 million in 2013. Arnold had total assets of $139.0 million and $144.8 million at December 31, 2015 and 2014, respectively. Net sales from Arnold represented 14.9%, 17.5% and 17.1% of our consolidated net sales for the years ended December 31, 2015, 2014 and 2013, respectively.

History of Arnold

Arnold was founded in 1895 as the Arnold Electric Power Station Company. Arnold began producing AlNiCo permanent magnets in its Marengo, Illinois facility in the mid-1930s. In 1946, Allegheny Ludlum Steel Corporation (Allegheny) purchased Arnold, and over the next few years began production of several additional magnetic product lines under license agreement with the Western Electric Company. In 1970, Arnold acquired Ogallala Electronics, which manufactured high power coils and electromagnets.

SPS Technologies (SPS), at the time a publicly traded company, purchased Arnold Engineering Company from Allegheny in 1986. Under SPS, Arnold made a series of acquisitions and partnerships to expand its portfolio and geographic reach. At the end of 2003, Precision Castparts, also a publicly traded company acquired SPS. In January 2005, Audax, a Boston-based private equity firm acquired Arnold from Precision Castparts.

In February 2007, Arnold Magnetic Technologies completed the acquisition of Precision Magnetics with operations in Sheffield, England; Lupfig, Switzerland; and Wayne, New Jersey. The Wayne, New Jersey facility was relocated to Rochester, NY later that year. In addition, Arnold's Lupfig, Switzerland operation is a joint venture partner with a Chinese rare earth producer. The joint venture manufactures RECOMA® Samarium Cobalt blocks for the Asian market.

We purchased a majority interest in Arnold on March 5, 2012.

Industry

Permanent Magnets

There exists a broad range of permanent magnets which include Rare Earth Magnets and magnets made from specialty magnetic alloys. Magnets produced from these materials may be sliced, ground, coated and magnetized to customer requirements. Those industry players with the broadest portfolio of these magnets, such as Arnold, maintain a significant competitive advantage over competitors as they are able to offer one-stop shop capabilities to customers.

Rare Earth Magnets

- Samarium Cobalt (SmCo) – SmCo magnets are typically used in critical applications that require corrosion resistance or high temperature stability, such as motors, generators, actuators and sensors. Arnold markets its SmCo magnets under the trade name of RECOMA ®.

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- Neodymium (Neo) – Neo magnets offer the highest magnetic energy level of any material in the market. Applications include motors and generators, VCM's, magnetic resonance imaging, sensors and loudspeakers.

Other Permanent Magnet Types

- AlNiCo – The AlNiCo family of magnets remains a preferred material for many mission critical applications. Its favorable linear temperature characteristics, high magnetic flux density and good corrosion resistance are ideally suited for use in applications requiring magnetic stability.
- Hard Ferrite – Hard ferrite (ceramic) magnets were developed as a low cost alternative to metallic magnets (steel and AlNiCo). Although they exhibit lower energy when compared to other materials available today and are relatively brittle, ferrite magnets have gained acceptance due to their low price per magnetic output.
- Injection Molded – Injection molded magnets are a composite of various types of resin and magnetic powders. The physical and magnetic properties of the product depend on the raw materials, but are generally lower in magnetic strength and resemble plastics in their physical properties. However, a major benefit of the injection molding process is that magnet material can be injection or over-molded, eliminating subsequent manufacturing steps.

Magnetic Assemblies- Arnold offers complex, customized value added magnetic assemblies. These assemblies are used in devices such as motors, generators, beam focusing arrays, sensors, and solenoid actuators. Magnetic assembly production capabilities include magnet fabrication, machining, encapsulation or sleeving, balancing, and field mapping.

Precision Strip and Foil

Precision rolled thin metal foil products are manufactured from a wide range of materials for use in applications such as transformers, motor laminations, honeycomb structures, shielding, and composite structures. These products are commonly found in security tags, medical implants, aerospace structures, batteries and speaker domes. Arnold has the expertise and capability to roll, anneal, slit and coat a wide range of materials to extremely thin gauges (2.5 microns) and exacting tolerances.

Flexible Magnets

Flexible magnet products span the range of applications from advertising (refrigerator magnets) to medical applications (surgical drapes) to sealing and holding applications (door gaskets).

Products and Services

PMAG

Arnold's Precision Magnets and Assemblies (PMAG) segment is a leading global manufacturer of precision magnetic assemblies and high-performance magnets. The segment's products include tight tolerance assemblies consisting of many dozens of components and employing RECOMA® SmCo, Neo, and AlNiCo magnets. These products are sold to a wide range of industries including aerospace and defense, alternative energy (hybrids/wind), automotive, medical, oil and gas, and general industrial.

PMAG is Arnold's largest business unit representing approximately 71% of Arnold sales on an annualized basis (including Reprographics) with a global footprint including manufacturing facilities in the U.S., U.K., Switzerland, and China.

PMAG—Products and Applications:

- High precision magnetic rotors for use in electric motors and generators. Typically used in demanding applications such as aerospace, oil and gas exploration, energy recovery systems and under the hood automotive
- Sealed pump couplings
- Beam focusing assemblies such as traveling wave tubes
- Oil & Gas NMR tools as well as pipeline inspection and down hole power generation
- Hall effect sensor systems

Arnold's reprographics unit, which is part of the PMAG segment, produces systems and components for copier systems. The business unit's state-of-the-art, high-volume precision magnetic assembly facility produces over 100,000 assemblies per year. The reprographics unit utilizes components produced by the Flexmag segment.

Reprographics—products and applications:

- Complex, multi-component, high-accuracy copier assemblies

- Toner rolls
- Toner and fuser assemblies

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Precision Thin Metals

Arnold's precision thin metals segment manufactures precision thin strip and foil products from an array of materials and represents approximately 9% of Arnold sales on an annualized basis. The Precision Thin Metals segment serves the aerospace & defense, power transmission, alternative energy (hybrids, wind, battery, solar), medical, security, and general industrial end-markets. With top-of-the-line equipment (Sendzimir mills) and superior engineering, Precision Thin Metals has developed unique processing capabilities that allow it to produce foils and strip with precision and quality that are unmatched in the industry (down to 1/10th thickness of a human hair). In addition, the segment's facility is capable of increasing production from current levels with its existing equipment and is, we believe, well-positioned to realize future growth with little incremental investment required.

Precision Thin Metals—Products and Applications:

- Electrical steels for hybrid propulsion systems, electric motors, and micro turbines
- Security and product ID tags
- Honeycomb structures for aerospace applications
- Irradiation windows
- Batteries
- Military countermeasures

Flexmag

Arnold is one of two North American manufacturers of flexible rubber magnets for specialty advertising, medical, and reprographic applications. Flexmag represents approximately 20% of Arnold sales on an annualized basis. It primarily sells its products to specialty advertisers and original equipment manufacturers. With highly automated manufacturing processes, Flexmag can accommodate customer's required short lead times. Flexmag benefits from a loyal customer base and significant barriers to entry in the industry. Flexmag's success is driven by superior customer service, and proprietary formulations offering enhanced product performance.

Flexmag—products and applications:

- Extruded and calendared flexible rubber magnets with optional laminated printable substrates
- Retail displays
- Seals and enclosures
- Signage for various advertising and promotions

Competitive Strengths

Competitive Landscape

The specialty magnets industry is highly fragmented, creating a competitive landscape with a variety of magnetic component manufacturers. However, few have the breadth of capabilities that Arnold possesses. Manufacturers compete on the basis of technical innovation, co-development capabilities, time-to-market, quality, geographic reach and total cost of ownership. Industry competitors relevant to Arnold's served markets range from large multinational manufacturers to small, regional participants. Given these dynamics, we believe the industry will likely favor players that are able to achieve vertical integration and a diversification of offerings across a breadth of products along with magnet engineering and design expertise.

Barriers to Entry

- Low Substitution Risk – Arnold's solutions are typically specified into its customers' program designs through a co-development and qualification process that often takes 6-18 months. Arnold's customers are typically contractors and component manufacturers whose products are integrated into end-customers' applications. The high cost of failure, relatively low proportionate cost of magnets to the final product, sometimes lengthy testing and qualification process, and substantial upfront co-engineering investment required, represent significant barriers to customers changing solution providers such as Arnold.
- Equipment and Processing – Arnold's existing base of production equipment has a significant estimated replacement cost. A new entrant could require as much as 2-3 years of lead time to match the process performance requirements, customization of equipment and material formulations necessary to effectively compete in the specialty magnet industry. Further, given the program nature of a majority Arnold's sales, management estimates that it could take 5-10 years to build a sufficient book of business and base of institutional knowledge to generate positive cash flow out of a

new manufacturing plant.

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Business Strategies

Engineering and Product Development

Arnold's engineers work closely with the customer to co-develop a product or process to provide system solutions, representing a significant competitive advantage. Arnold's engineering expertise is leveraged by the state-of-the-art Technology Center working together with the various business units located in North America, Europe and Asia Pacific. This cooperative engineering effort allows Arnold to support customers and projects on a global basis. Arnold's engineers work with customers on a global basis to optimize designs, guide material choices, and create magnetic models resulting in Arnold's products being specified into customer designs.

Arnold has a talented and experienced engineering staff of design and application experts, quality personnel and technicians. Included in this team are engineers with backgrounds in materials science, physics, and metallurgical engineering. Other members of the team bring backgrounds in ceramics, mechanical engineering, chemical engineering and electrical engineering.

Arnold continues to be an industry leader with regard to new product formulations and innovations. As evidence of this, Arnold currently relies on a deep portfolio of "trade secrets" and internal intellectual property. Arnold continuously endeavors to introduce magnet solutions that exceed the performance of current offerings and meet customer design specifications.

Growth in Arnold's business is primarily focused in three areas:

(i) Growing market share in existing end-markets and geographies

(ii) Developing new products and technologies

(iii) Completing opportunistic acquisitions

Existing End-Markets and Geographies

Oil & Gas

Arnold currently provides magnets and precision assemblies for use in oil and gas exploration and production, applications which typically require exceptional collaboration and co-development with its customers. Arnold supplies products used in applications such as a new oil well shutoff valve, a new down-hole logging while drilling tool, and a down-hole magnetic transfer coupling. Other applications for which Arnold is actively involved include pipeline inspection, wireless tomography tools, and chip collection.

Power Transmission

Arnold's Precision Thin Metals segment supplies grain-oriented silicon steel produced with proprietary methods for use in transformers and inductors. These cores allow for the production of very efficient transformers and inductors while minimizing size. In addition, Arnold's magnet solutions can be found in advanced automatic circuit re-closer solutions that substantially reduce the stress on system components on the grid. Arnold's solutions are also present in new power storage systems. The permanent magnet bearings used in new designs improve the efficiency of the flywheel energy storage system.

Automotive

In the automotive sector, Arnold is selling magnets and magnetic assemblies primarily to Tier 1 and 2 companies. It is estimated that the current automobile contains over 50 magnetic systems, and this number is expected to grow due to vehicle electrification initiatives in order to meet increasing fuel efficiency standards. Typical applications include magnets for Hall Effect sensors that are used in braking, passenger restraint, and steering and engine control systems. Emerging magnetic applications include electric traction drives, regenerative braking systems, starter generators, and electric turbo charging. The auto industry continues to adopt increasingly sophisticated technology to reduce vehicle weight and improve fuel efficiency. As much of this technology utilizes magnetic systems, Arnold expects to benefit from this trend.

Aerospace and Defense

In the aerospace and defense sector, Arnold is selling magnets, magnetic assemblies and ultra-thin foil solutions. Specifically, in the aerospace industry, Arnold's assemblies have been designed into products, which enables Arnold to benefit from the market growth and a healthy flow of business based on current airframe orders. Through its OEM customers, essentially all new commercial aircraft placed in service contain assemblies produced by Arnold. Arnold's sales to large aerospace and defense manufactures includes magnetic assemblies used in applications such as motors

and generators, actuators, trigger mechanisms, and guidance

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systems, as well as magnets for these and other uses. In addition it sells its ultra-thin foil for use in military countermeasures, honeycomb structures, brazing alloys, and motor laminations.

General Industrial

Within the industrial sector Arnold provides magnet assemblies as well as magnets for custom made motor systems. These include stepper motors, pick and place robotic systems, and new designs that are increasingly being required by regulation to meet energy efficiency standards. An example is a motor utilizing Arnold's bonded magnets for use in commercial refrigeration systems. Arnold also produces magnetic couplings for seal-less pumps used in chemical and oil & gas applications that allow chemical companies to meet environmental requirements.

Medical

Within the medical sector, Arnold provides magnetic assemblies, magnets, flexible magnets, and ultrathin foils. Its magnet assemblies and magnets are critical parts of motor systems for dental instruments as well as saws and grinders. Magnet assemblies are also provided for skin expansion systems, shunt valves, and position sensors. In addition, its Precision Thin Metals business unit is providing a specialty alloy for advanced breast cancer treatment.

New Products & Technologies

Flexcoat - launched in April 2010, this product was engineered to eliminate the issues associated with the conventional flexible magnetic product laminated with a printable surface. The solution is a printable coating that is applied to the magnet, which replaces substrates such as vinyl and paper that are currently adhered to the base magnet material. This results in a printed magnet that is now completely recyclable and is easier to process.

Research and Development

Arnold has a core research and development team, which has collectively over 30 years of combined industry experience. In addition to the core engineering group, a large number of other Arnold staff members assigned to the business units 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 Arnold's demanding standards of excellence as well as the constantly changing needs of end users. Arnold'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. Arnold spent approximately $0.5 million, $1.0 million and $0.9 million, respectively, in research and development activities in each of the years ended December 31, 2015, 2014 and 2013.

Customers

Arnold's focus on customer service and product quality has resulted in a broad base of customers in a variety of end markets. Products are used in applications such as general industrial, reprographic systems, aerospace & defense, advertising and promotion, consumer and appliance, energy, automotive and medical.

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The following table sets forth management's estimate of Arnold's approximate customer breakdown by industry sector for the fiscal year ended December 31, 2015, 2014 and 2013:

	Customer Distribution					
Industry Sector	2015		2014		2013	
General industrial	27	%	27	%	26	%
Aerospace and defense	24	%	21	%	18	%
Advertising and promotion	13	%	12	%	13	%
Consumer and appliance	2	%	2	%	2	%
Energy	9	%	8	%	9	%
Automotive	8	%	9	%	8	%
Medical	3	%	2	%	2	%
Reprographic	11	%	16	%	19	%
All Other Sectors Combined	3	%	3	%	3	%
Total	100	%	100	%	100	%

Arnold has a large and diverse, blue-chip customer base. No customer represented greater that 10% of Arnold's annual revenue in 2015. Sales to Arnold's top ten customers were 33% of total sales for each of the years ended December 31, 2015, 2014 and 2013, respectively.

Competition

Management believes the following companies represent Arnold's top competitors:

- Thomas & Skinner
- Magnum Magnetics
- Electron Energy
- Vacuumschmelze Gruner, Germany-based

Sales and Marketing

PMAG - Arnold's PMAG segment supports a global team of direct sales and marketing professionals and critical design and application engineers. The PMAG sales force is organized for regional coverage with a focus on sales in U.S., Europe, and South East Asia. Arnold serves over 850 active customers globally. As the majority of revenues are project based in the PMAG business unit, technical sales are critical to the segment's success. Arnold's highly-qualified application engineers are often integrated into its customers' product design, planning, and implementation phases, offering the most cost effective solution for demanding clients. The resulting intimate customer relationships yield a high close rate, with revenue achieved primarily after the prototype phase.

Precision Thin Metals – Similar to Arnold's PMAG segment, the vast majority of Precision Thin Metals' sales are technically driven engineered solutions. These teams communicate closely in order to take advantage of potential cross-selling opportunities. Approximately 60% of sales are domestic, with the balance of sales to Western Europe.

Flexmag Products - The Flexmag business segment services over 625 customers globally. Its sales force is comprised of seven total sales professionals and supported by seven design and application engineers. This segment is primarily book/bill and has limited revenue subject to long-term purchase commitments.

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The following table sets forth Arnold's net sales by geographic location for the fiscal years ended December 31, 2015, 2014 and 2013:

Geographic location	2015		2014		2013	
North America	66	%	58	%	54	%
Europe	28	%	33	%	34	%
Asia Pacific	6	%	9	%	12	%
All Other Locations Combined	—	%	—	%	—	%
Total	100	%	100	%	100	%

Arnold had firm backlog orders totaling approximately $25.2 million and $28.3 million, respectively, at December 31, 2015 and 2014.

Suppliers

Raw materials utilized by Arnold include nickel and cobalt, stainless steel shafts, Inconel sleeves, adhesives, laminates, aluminum extrusions and binders. Although Arnold considers its relationships with vendors to be strong, Arnold's management team also maintains a variety of alternative sources of comparable quality, quantity and price. The management team therefore believes that it is not dependent upon any single vendor to meet its sourcing needs. Arnold is generally able to pass through material costs to its customers and believes that in the event of significant price increases by vendors that it could pass the increases to its customers.

Intellectual Property

Arnold currently relies on a deep portfolio of "trade secrets" and internal intellectual property.

Patents

Arnold currently has thirteen patents and four in process; over half of the patents were granted in the U.S. with the remaining patents granted in European countries such as Germany, Great Britain, France and the Netherlands. Ten of the patents are related to methods of making magnetic strips. In 2004, Arnold was granted a patent related to a thermally-stable, high-temperature, SmCo molding compound.

Trademarks

Arnold currently has 86 trademarks, 12 of which are in the U.S. The most notable trademarked items are the following: "RECOMA", "PLASTIFORM", "FLEXMAG" & "ARNOLD". Application dates for various trademarks date back to as early as 1961.

Regulatory Environment

Arnold's domestic manufacturing and assembly operations and its facilities are subject to evolving Federal, state and local environmental and occupational health and safety laws and regulations. These include laws and regulations governing air emissions, wastewater discharge and the storage and handling of chemicals and hazardous substances. Arnold's foreign manufacturing and assembly operations are also subject to local environmental and occupational health and safety laws and regulations. Management believes that Arnold is in compliance, in all material respects, with applicable environmental and occupational health and safety laws and regulations. New requirements, more stringent application of existing requirements, or discovery of previously unknown environmental conditions could result in material environmental expenditures in the future.

Arnold is a major producer of both Samarium Cobalt permanent magnets under its brand name RECOMA® and Alnico (in both cast and sintered forms). Both materials from Arnold meet the current Berry Amendment or Defense Acquisition Regulations Systems (DFARS) requirements per clause 252.225.7014 further described under 10 U.S.C. 2533b. This provision covers the protection of strategic materials critical to national security. These magnet types are considered "specialty metals" under these regulations.

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Employees

Arnold is led by a capable management team of industry veterans that possess a balanced combination of industry experience and operational expertise. The current senior management team has approximately 100 years of cumulative experience with an average tenure of approximately 16 years at Arnold. Current management has implemented numerous operational, strategic, and financial initiatives over the past several years, including almost 100 unique lean initiatives and kaizen events.

Arnold employs approximately 690 hourly and salaried employees located throughout North America, Europe and Asia. Arnold's employees are compensated at levels commensurate with industry standards, based on their respective position and job grade.

Arnold's workforce is non-union except for approximately 54 hourly employees at its Marengo, Illinois facilities, which are represented by the International Association of Machinists (IAM). Arnold enjoys good labor relations with its employees and union and has a three year contract in place with the IAM, which will expire in June of 2016.

Clean Earth

Overview

Headquartered in Hatboro, Pennsylvania, Clean Earth provides environmental services for a variety of contaminated materials including soils, dredged material, hazardous waste and drill cuttings. Clean Earth analyzes, treats, documents and recycles waste streams generated in multiple end markets such as power, construction, oil and gas, infrastructure, industrial and dredging. Treatment includes thermal desorption, dredged material stabilization, bioremediation, physical treatment/screening and chemical fixation. Before the company accepts contaminated materials, it identifies a third party "beneficial reuse" site such as commercial redevelopment or landfill capping where the materials will be sent after they are treated. Clean Earth operates 14 permitted facilities in the Eastern United States. Revenues from the environmental recycling facilities are generally recognized at the time of treatment.

For the fiscal years ended December 31, 2015 and December 31, 2014 (from date of acquisition), Clean Earth had net sales of approximately $175.4 million and $68.4 million, respectively, and operating income of $11.0 million and $2.7 million, respectively. Clean Earth had total assets of $338.2 million and $365.5 million at December 31, 2015 and 2014, respectively. Net sales from Clean Earth represented 21.8% of our consolidated net sales for the year ended December 31, 2015 and 9.7% of our consolidated net sales for 2014 (from acquisition date to December 31, 2014).

We purchased a majority interest in Clean Earth on August 26, 2014.

History of Clean Earth

Clean Earth was founded in 1990 with the establishment of a contaminated material treatment facility in New Castle, Delaware focused on processing soils. The treatment of contaminated materials has diversified significantly over the years as Clean Earth now also processes dredged material, coal ash, hazardous waste and drill cuttings. Clean Earth has been able to grow consistently via both organic initiatives and acquisition. In 1997 the Company opened Clean Earth of Carteret, which was the first "fixed-based" bioremediation facility permitted in the State of New Jersey. In 1998, Clean Earth started offering hazardous waste treatment after acquiring S&W Waste, now Clean Earth of North Jersey, a fully permitted commercial Resource Conservation and Recovery Act ("RCRA") Part B Treatment, Storage & Disposal Facility ("TSDF"). That same year Clean Earth also expanded services into the treatment of dredged material through the acquisition of Consolidated Technologies Inc. (now Clean Earth Dredging Technologies). Today, Clean Earth is one of the largest providers of contaminated materials treatment in the East. In addition to diversifying the number of contaminated materials it handles Clean Earth has also significantly expanded its geography. The Company now operates permitted facilities from New York to Florida, and with the December 2014 acquisition of AES Environmental Services, Clean Earth has expanded their footprint of permitted facilities to Kentucky and West

Virginia as well.

Industry

Overview

The U.S. environmental services industry is highly fragmented, with Clean Earth most closely correlated with the remediation and hazardous waste management segments of the industry. Historically, growth in these sectors has been primarily driven by increasing regulations and growing volume of waste generated, and is now positively affected by increases in waste disposal costs and resulting landfill avoidance trends. Other trends driving growth include increasing concern in corporate America regarding environmental liabilities and a push by companies to outsource a larger amount of environmental services to a smaller number of service providers due to increasing compliance costs.

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Contaminated Materials

Contamination of soils and other materials is prevalent and often caused by the introduction of chemicals, petroleum hydrocarbons, solvents, pesticides, lead and other heavy metals into the earth. These contaminants are common in areas of industrialization and severely impact the environment as a result of inadequate containment or improper disposal. As a result of their prevalence and impact, these contaminates are subject to ever more stringent environmental regulations which now govern the handling, treatment, and disposal of these contaminants. As a result, when soil or other materials are removed from a site, they must be tested. The strong likelihood that materials will contain some level of contamination generates consistent demand for treatment and beneficial reuse solutions. Contaminated materials are routinely associated with infrastructure, commercial development, and other excavation projects, heavy industrial activity, spill clean-up or environmental remediation projects, locations with former manufactured gas plants (“MGP”), underground storage tanks (“UST”) or aboveground storage tanks, and a wide variety of increasingly regulated waste streams.

Dredge Market

Dredging is the act of removing sediment from the bottom of waterways, both inland (rivers and canals) and ocean (floors, harbors, channels, etc.), and is performed for both navigational and environmental purposes. Like soil, most dredged material largely contains some level of contamination, particularly in current or historically industrially active areas. Accordingly, the Environmental Protection Agency (the "EPA") has established regulations that govern the disposal methods of dredged material, including the Marine Protection, Research and Sanctuaries Act (“MPRSA”), and the Federal Water Pollution Control Act, or the Clean Water Act.

The treatment and beneficial reuse of dredged material began in 1995, when various government entities in New Jersey and New York permitted a unique project to demonstrate the feasibility of using treated and processed dredged material to reclaim a former landfill and repurpose it for a new building project. Regulations require contaminated dredge spoils to be taken upland for treatment or disposal in accordance with Title 33 as administered by the United States Army Corps of Engineers and the EPA. Once treated, dredged material is used for structural fill and development purposes.

Hazardous Waste

The hazardous waste services industry encompasses the generation, collection, treatment, and ultimate disposal of wastes classified as hazardous by RCRA. RCRA, the primary law governing the disposal of solid and hazardous waste, was passed by Congress in 1976 to address increasing problems associated with growing volumes of municipal and industrial waste.

Accidents, spills, leaks, and improper handling and disposal of hazardous materials and waste have resulted in the contamination of land, water and air in the U.S. The U.S. generated 34 million tons of hazardous waste in 2011, according to the EPA. These wastes come primarily from three sources, Superfund sites, routine business and the increasingly expanding waste regulations.

In order to address these environmental hazards, the EPA established a program known as the Superfund, which allows the EPA to clean up such sites, or to compel responsible parties to perform clean-ups or reimburse the EPA for its clean-up expenses. This includes regulatory requirements that raise both the monetary and reputational costs for non-compliance. The Superfund program has identified tens of thousands of sites that require treatment over its more than 20-year history.

Outside of the known Superfund sites, hazardous waste is also generated during the routine course of business and manufacturing, requiring the same care of handling by a specialized treatment facility. The generation of hazardous waste is common throughout the chemicals and petrochemical, steel, general manufacturing, government, aerospace

and public utilities industries. Within the U.S., the Northeast region is one of the most densely concentrated areas for generators of hazardous waste.

In addition to hazardous waste generated by industrial activity, increasingly complex regulations have expanded the scope of what is considered hazardous waste from non-traditional sources, such as retailers and households. For instance, environmental regulations require large quantity generators such as big box retailers to dispose of all returned or damaged products that include pesticides, aerosols, fertilizers and cleaners through a permitted hazardous waste disposal program. Similarly, household products, such as paints, oils, batteries, fluorescent light bulbs and pesticides, which contain potentially hazardous ingredients, require special treatment and disposal.

Growing and Increasingly Regulated Waste Streams

Federal, state and local regulators have continuously expanded legal guidelines to include additional waste streams, becoming increasingly vigilant to ensure the proper treatment and disposal of an ever-increasing number of contaminants. Two of the most prevalent increasingly regulated waste streams include drill cuttings from natural gas drilling and coal ash, a byproduct of fossil fuel power plants.

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Services

Clean Earth provides services to a variety of customers handling numerous unique sites that often require a range of custom solutions based upon project-specific factors. Clean Earth provides its core material treatment capabilities and complementary services. In addition to its treatment offerings, Clean Earth also provides turnkey services that include proper identification of waste services, management of all transportation and logistics, appropriate testing and analytics, manifesting/documentation and environmentally compliant placement of treated materials at backend locations.

Site Planning and Sampling
Before work commences, Clean Earth has the ability to conduct waste characterization services consisting of field sampling, contaminated material collection and laboratory analysis. Properly identifying waste contaminants upfront can be important, as misclassification leads to mishandling of the waste, which can be costly in terms of fines, penalties, reduced recycling rates (increased disposal fees), and lost project time. Results are analyzed to assess time, cost and logistics, which give Clean Earth the ability to provide customers with a disposal recommendation and a cost-effective solution.

Testing and Analytics
Clean Earth utilizes internal and external, fully-certified and approved laboratories that perform field sampling and contaminated material collection, laboratory analysis, site sampling plans and sampling location diagrams. Laboratory testing is customizable, and Clean Earth determines appropriate testing methods to assess the quantity and type of contaminant in the material. Clean Earth analyzes the results to determine an appropriate treatment and beneficial reuse plan specific to each material. Clean Earth maintains a state-certified hazardous waste laboratory in the New York metropolitan area at its Kearny, New Jersey facility.

Transportation and Logistics
Clean Earth operates an asset-light business model in which it arranges for transportation of the materials on behalf of its customers via pre-qualified independent hauling companies for the vast majority of its volume. Due to Clean Earth’s ability to provide year-round work for transportation companies and its consistent payment practices, it has developed very strong and long-standing relationships with its vendors, providing a large pool of available trucks to complete projects efficiently.

Manifesting and Documentation
Clean Earth provides uniform manifests for customer projects that can be used throughout its network of facilities. These manifests provide tracking of all material moved from a customer site to its facilities and eventually to the final beneficial use site. Furthermore, these documents are maintained and submitted to regulatory agencies such as the EPA for their review.

Treatment
Clean Earth offers several processes to treat, stabilize and/or decharacterize waste material and subsequently avoid costly landfill disposal and meet strict regulatory and site-specific requirements before being beneficially reused.

- Thermal Desorption
  - Primarily used to treat soil with high levels of volatile contaminants by heating it in a rotating dryer to volatilize and then subsequently destroy the contaminants
  - The treated material then enters a soil conditioner (called a pugmill), where it is cooled and rehydrated
  - Finally, the cooled soil is stockpiled, sampled, and tested by an independent certified laboratory to ensure effective treatment and fulfillment of reuse standards

This treatment method is primarily used for soils that contain high levels of contaminants, such as soil from manufactured gas plant sites

- Stabilization of Dredged Material