Compass Diversified Trust
Form S-1/A
April 20, 2007

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As filed with the Securities and Exchange Commission on April 20, 2007
Securities Act File No. 333-141856

AMENDMENT NO. 1
TO
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

COMPASS DIVERSIFIED TRUST
(Exact name of Registrant as specified in charter)

Delaware	**7363**	**57-6218917**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

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

Delaware	**7363**	**20-3812051**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

Sixty One Wilton Road
Second Floor
Westport, CT 06880
(203) 221-1703
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

I. Joseph Massoud
Chief Executive Officer
Compass Group Diversified Holdings LLC
Sixty One Wilton Road
Second Floor
Westport, CT 06880
(203) 221-1703

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 20, 2007

PRELIMINARY PROSPECTUS

8,000,000 Shares

Each Share Represents One Beneficial Interest in the Trust

We are offering to sell 8,000,000 shares of Compass Diversified Trust, which we refer to as the trust. Each share of the trust represents one undivided beneficial interest in the trust property. The purpose of the trust is to hold 100% of the trust interests of Compass Group Diversified Holdings LLC, which we refer to as the company. Each beneficial interest in the trust corresponds to one trust interest of the company.

Compass Group Investments, Inc., through a wholly owned subsidiary, has agreed to purchase, in a separate private placement transaction to close in conjunction with the closing of this offering, a number of shares in the trust having an aggregate purchase price of approximately $30 million, at a per share price equal to the public offering price (which will be approximately 1,764,706 shares).

The shares trade on the NASDAQ Global Select Market under the symbol CODI. On April 19, 2007, the closing price of the shares on the NASDAQ Global Select Market was $16.45.

Investing in the shares involves risks. See the section entitled Risk Factors beginning on page 11 of this prospectus for a discussion of the risks and other information that you should consider before making an investment in our securities.

	Per Share	Total
Public offering price	$	$
Underwriting discount and commissions	$	$
Proceeds, before expenses, to us	$	$

The underwriters may also purchase up to an additional 1,200,000 shares from us at the public offering price, less the underwriting discount and commissions, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We expect to deliver the shares to the underwriters for delivery to investors on or about , 2007.

Sole Bookrunner

Citigroup

Ferris, Baker Watts
Incorporated

A.G. Edwards

BB&T Capital Markets
a division of Scott & Stringfellow, Inc.

Morgan Keegan & Company, Inc.

SMH CAPITAL Inc.

The date of this prospectus is , 2007

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We, and the underwriters, are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.

In this prospectus, we rely on and refer to information and statistics regarding market data and the industries of the businesses we own that are obtained from internal surveys, market research, independent industry publications and other publicly available information, including publicly available information regarding public companies. The information and statistics are based on industry surveys and our manager s and its affiliates experience in the industry.

This prospectus contains forward-looking statements that involve substantial risks and uncertainties as they are not based on historical facts, but rather are based on current expectations, estimates, projections, beliefs and assumptions about our businesses and the industries in which they operate. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. You should not place undue reliance on any forward-looking statements, which apply only as of the date of this prospectus.

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SUMMARY

This summary highlights selected information appearing elsewhere in this prospectus. For a more complete understanding of this offering, you should read this entire prospectus carefully, including the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes relating thereto. Unless we tell you otherwise, the information set forth in this prospectus assumes that the underwriters have not exercised their overallotment option. Further, unless the context otherwise indicates, numbers in this prospectus have been rounded and are, therefore, approximate.

Compass Diversified Trust, which we refer to as the trust, acquires and owns its businesses through a Delaware limited liability company, Compass Group Diversified Holdings LLC, which we refer to as the company. Except as otherwise specified, references to Compass Diversified, we, us and our refer to the trust and the company and its businesses together. See the section entitled Description of Shares for more information about certain terms of the shares, trust interests and allocation interests.

Overview

Compass Diversified Trust offers investors an opportunity to participate in the ownership and growth of middle market businesses that traditionally have been owned and managed by private equity firms or other financial investors, large conglomerates or private individuals or families. Through the ownership of a diversified group of middle market businesses, we also offer investors an opportunity to diversify their portfolio risk while participating in the cash flows of our businesses through the receipt of quarterly distributions.

We acquire and manage middle market businesses based in North America with annual cash flows between $5 million and $40 million. We seek to acquire controlling ownership interests in the businesses in order to maximize our ability to work actively with the management teams of those businesses. Our model for creating shareholder value is to be disciplined in identifying and valuing businesses, to work closely with management of the businesses we acquire to grow the cash flows of those businesses, and to exit opportunistically businesses when we believe that doing so will maximize returns. We currently own six businesses in six distinct industries and we believe that these businesses will continue to produce stable and growing cash flows over the long term, enabling us to meet our objectives of growing distributions to our shareholders, independent of any incremental acquisitions we may make, and investing in the long-term growth of the company.

In identifying acquisition candidates, we target businesses that:

- produce stable cash flows;
- have strong management teams largely in place;
- maintain defensible positions in industries with forecasted long-term macroeconomic growth; and
- face minimal threat of technological or competitive obsolescence.

We maintain a long-term ownership outlook which we believe provides us the opportunity to develop more comprehensive strategies for the growth of our businesses through various market cycles, and will decrease the possibility, often faced by private equity firms or other financial investors, that our businesses will be sold at unfavorable points in a market cycle. Furthermore, we provide the financing for both the debt and equity in our acquisitions, which allows us to pursue growth investments, such as add-on acquisitions, that might otherwise be restricted by the requirements of a third-party lender. We have also found sellers to be attracted to our ability to provide both debt and equity financing for the consummation of acquisitions, enhancing the prospect of confidentiality and certainty of consummating these transactions. In addition, we believe that our ability to be long-term owners alleviates the concern that many private company owners have with regard to their businesses going through multiple sale processes in a short period of time and the disruption that this may create for their employees or customers.

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We have a strong management team that has worked together since 1998 and, collectively, has approximately 75 years of experience in acquiring and managing middle market businesses. During that time, our management team has developed a reputation for acquiring middle market businesses in various industries through a variety of processes. These include corporate spin-offs, transitions of family-owned businesses, management buy-outs, management based roll-ups, reorganizations, bankruptcy sales and auction-based acquisitions from financial owners. The flexibility, creativity, experience and expertise of our management team in structuring complex transactions provides us with strategic advantages by allowing us to consider non-traditional and complex transactions tailored to fit specific acquisition targets.

Our manager, who we describe below, has demonstrated a history of growing cash flows at the businesses in which it has been involved. As an example, for the four businesses we acquired concurrent with our initial public offering, which we refer to as the IPO, 2006 full-year operating income increased, in total, over 2005 by approximately 20.5%. Our quarterly distribution rate has increased by 14.3% from the IPO, on May 16, 2006 until January 2007, from $0.2625 per share to $0.30 per share. From the date of the IPO until December 31, 2006 (including the distribution paid in January 2007 for the quarter ended December 31, 2006), our distribution coverage ratio (estimated cash flow available for distribution divided by total distributions) was approximately 1.7x. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Our Businesses

To date, we have acquired controlling interests in the following seven businesses:

Advanced Circuits

On May 16, 2006, concurrent with the IPO, we acquired a controlling interest in Compass AC Holdings, Inc., which we refer to as Advanced Circuits. Advanced Circuits, headquartered in Aurora, Colorado, is a provider of prototype and quick-turn printed circuit boards, or PCBs, throughout the United States. PCBs are a vital component of virtually all electronic products. The prototype and quick-turn portions of the PCB industry are characterized by customers requiring high levels of responsiveness, technical support and timely delivery. 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 rather than on other factors, such as price. Advanced Circuits meets this market need by manufacturing and delivering custom PCBs in as little as 24 hours, providing its approximately 8,000 customers with approximately 98% error-free production and real-time customer service and product tracking 24 hours per day. Advanced Circuits had full-year operating income of approximately $11.6 million for the year ended December 31, 2006.

Aeroglide

On February 28, 2007, we acquired a controlling interest in Aeroglide Corporation, which we refer to as Aeroglide. Aeroglide, headquartered in Cary, North Carolina, is a leading global designer and manufacturer of industrial drying and cooling equipment. Aeroglide provides specialized thermal processing equipment designed to remove moisture and heat as well as roast, toast and bake a variety of processed products. Its machinery includes conveyer driers and coolers, impingement driers, drum driers, rotary driers, toasters, spin cookers and coolers, truck and tray driers and related auxiliary equipment and is used in the production of a variety of human foods, animal and pet feeds and industrial products. Aeroglide utilizes an extensive engineering department to custom engineer each machine for a particular application. Aeroglide had full-year operating income of approximately $3.1 million for the year ended December 31, 2006.

Anodyne

On August 1, 2006, we acquired a controlling interest in Anodyne Medical Device, Inc., which we refer to as Anodyne. Anodyne, headquartered in Los Angeles, California, is a leading manufacturer of medical support services and patient positioning devices used primarily for the prevention and treatment of pressure

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wounds experienced by patients with limited or no mobility. On October 5, 2006, Anodyne acquired the patient positioning business of Anatomic Global, Inc. Anodyne is one of the nation s leading designers and manufacturers of specialty support surfaces and is able to manufacture products in multiple locations to better serve a national customer base. Anodyne had operating income of approximately $0.3 million for the ten and one-half month period ended December 31, 2006.

CBS Personnel

On May 16, 2006, concurrent with the IPO, we acquired a controlling interest in CBS Personnel Holdings, Inc., which we refer to as CBS Personnel. CBS Personnel, headquartered in Cincinnati, Ohio, is a provider of temporary staffing services in the United States. In order to provide its 4,000 clients with tailored staffing services to fulfill their human resources needs, CBS Personnel also offers employee leasing services, permanent staffing and temporary-to-permanent placement services. CBS Personnel operates 144 branch locations in various cities in 18 states. CBS Personnel had full-year operating income of approximately $21.1 million for the year ended December 31, 2006.

Crosman

On May 16, 2006, concurrent with the IPO, we acquired a controlling interest in Crosman Acquisition Corporation, which we refer to as Crosman. Crosman, headquartered in East Bloomfield, New York, was one of the first manufacturers of airguns and is a manufacturer and distributor of recreational airgun products and related products and accessories. The Crosman brand is one of the pre-eminent names in the recreational airgun market and is widely recognized in the broader outdoor sporting goods industry. Crosman s products are sold in over 6,000 retail locations worldwide through approximately 500 retailers, which include mass market and sporting goods retailers. On January 5, 2007, we sold Crosman on the basis of a total enterprise value of approximately $143 million. We have reflected Crosman as a discontinued operation for all periods presented in this prospectus. For further information, see Note D Discontinued Operations, to our consolidated financial statements included elsewhere in this prospectus. Crosman had full-year operating income of approximately $17.6 million for the year ended December 31, 2006.

Halo

On February 28, 2007, we acquired a controlling interest in Halo Branded Solutions, Inc., which we refer to as Halo, and which operates under the brand names of Halo and Lee Wayne. Halo, headquartered in Sterling, Illinois, serves as a one-stop shop for over 30,000 customers, providing design, sourcing, management and fulfillment services across all categories of its customers promotional product needs. Halo has established itself as a leader in the promotional products and marketing industry through its focus on service through its approximately 700 account executives. Halo had full-year operating income of approximately $6.1 million for the year ended December 31, 2006.

Silvue

On May 16, 2006, concurrent with the IPO, we acquired a controlling interest in Silvue Technologies Group, Inc., which we refer to as Silvue. Silvue, headquartered in Anaheim, California, is a developer and producer of proprietary, high performance liquid coating systems used in the high-end eyewear, aerospace, automotive and industrial markets. Silvue s patented coating systems can be applied to a wide variety of materials, including plastics, such as polycarbonate and acrylic, glass, metals and other surfaces. These coating systems impart properties, such as abrasion resistance, improved durability, chemical resistance, ultraviolet or UV protection, anti-fog and impact resistance, to the materials to which they are applied. Silvue has sales and distribution operations in the United States, Europe and Asia, as well as manufacturing operations in the United States and Asia. Silvue had full-year operating income of approximately $6.7 million for the year ended December 31, 2006.

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Our Manager

We have entered into a management services agreement with Compass Group Management LLC, who we refer to as our manager or CGM, pursuant to which our manager manages the day-to-day operations and affairs of the company and oversees the management and operations of our businesses. While working for a subsidiary of Compass Group Investments, Inc., which we refer to as CGI, our management team originally oversaw the acquisition and operations of each of our initial businesses and Anodyne prior to our acquiring them from CGI.

We pay our manager a quarterly management fee equal to 0.5% (2.0% annualized) of our adjusted net assets as of the last day of each fiscal quarter for the services it performs on our behalf and reimburse our manager for certain expenses. In addition, our manager is entitled to receive a profit allocation upon the occurrence of certain trigger events and has the right to cause the company to purchase the allocation interests upon termination of the management services agreement. See Our Manager Our Relationship with Our Manager and Supplemental Put Agreement and Certain Relationships and Related Party Transactions for further descriptions of the management fees and profit allocation and our manager s supplemental put right.

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 a substantial majority of their time to the affairs of the company. See Our Manager Our Relationship with Our Manager and Certain Relationships and Related Party Transactions for further descriptions of costs and expenses for which we typically reimburse our manager.

Market Opportunity

We believe that the merger and acquisition market for middle market businesses is highly fragmented and provides opportunities to purchase businesses at attractive prices. For example, according to Mergerstat, during the twelve month period ended December 31, 2006, businesses that sold for less than $100 million were sold for a median of approximately 7.9x the trailing twelve months of earnings before interest, taxes, depreciation and amortization as compared to a median of approximately 9.3x for businesses that were sold for between $100 million and $300 million and 11.7x for businesses that were sold for over $300 million. We expect to acquire companies in the first two categories described above, and our manager has, to date, typically been successful in consummating attractive acquisitions at multiples at or below 7x the trailing twelve months of earnings before interest, taxes, depreciation and amortization, both on behalf of the company and prior to our formation while working for a subsidiary of CGI. We believe that among the factors contributing to lower acquisition multiples for businesses of the size we target are the fact that sellers of these businesses frequently consider non-economic factors, such as continuing board membership or the effect of the sale on their employees and customers, and that these businesses are less frequently sold pursuant to an auction process.

Our Strategy

In seeking to maximize shareholder value, we focus on the acquisition of new platforms and the management of our existing businesses (including acquisition of add-on businesses by those existing businesses). While we continue to identify, perform due diligence on, negotiate and consummate additional platform acquisitions of attractive middle market businesses that meet our acquisition criteria, we believe that our current businesses alone will allow us to pay and grow distributions to our shareholders.

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Acquisition Strategy

Our strategy for new platforms involves the acquisition of businesses that we expect to be accretive to our cash flow available for distribution. An ideal acquisition candidate for us is a North American company which demonstrates a reason to exist, that is, it is a leading player in its market niches, has predictable and growing cash flows, operates in an industry with long-term macroeconomic growth and has a strong and incentivizable management team. We believe that attractive opportunities to make such acquisitions will continue to present themselves, as private sector owners seek to monetize their interests and large corporate parents seek to dispose of their non-core operations. We benefit from our manager s ability to identify 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.

Management Strategy

Our management strategy involves the active financial and operational management of our businesses in order to improve financial and operational efficiencies and achieve appropriate growth rates. After acquiring a controlling interest in a new business, we rely on our management team s experience and expertise to work efficiently and effectively with the management of the new business to jointly develop and execute a business plan and to manage the business consistent with our management strategy. In addition, we expect to sell businesses that we own from time to time, when attractive opportunities arise. Our decision to sell a business is based on our belief that doing so will increase shareholder value to a greater extent than would continued ownership of that business. Our sale of Crosman is an example of our ability to successfully execute this strategy. With respect to the sale of Crosman, we recognized a gain of approximately $35.9 million having owned Crosman for under eight months and having earned operating income of $13.3 million through December 31, 2006.

Corporate Structure

The trust is a Delaware statutory trust. Our principal executive offices are located at Sixty One Wilton Road, Second Floor, Westport, Connecticut 06880, and our telephone number is 203-221-1703. Our website is at www.CompassDiversifiedTrust.com. The information on our website is not incorporated by reference and is not part of this prospectus.

We are selling 8,000,000 shares of the trust in connection with this offering and an additional 1,764,706 shares in the separate private placement transaction. Each share of the trust represents one undivided beneficial interest in the trust property. The purpose of the trust is to hold the trust interests of the company, which is one of two classes of equity interests in the company the trust interests, of which 100% are held by the trust, and allocation interests, of which 100% are held by our manager. The trust has the authority to issue shares in one or more series. See the section entitled Description of Shares for more information about the shares, trust interests and allocation interests.

Your rights as a holder of trust shares, and the fiduciary duties of the company s board of directors and executive officers, and any limitations relating thereto are set forth in the documents governing the trust and the company. The documents governing the company specify that the duties of its directors and officers are generally consistent with the duties of a director of a Delaware corporation. Investors in the trust shares will be treated as beneficial owners of trust interests in the company.

The company s board of directors oversees the management of the company and our businesses and the performance by our manager. The company s board of directors is comprised of seven directors, all of whom were initially appointed by our manager, as holder of the allocation interests, and four of whom are the company s independent directors. Six of the directors are elected by our shareholders in three staggered classes.

As holder of the allocation interests, our manager has the right to appoint one director to the company s board of directors, subject to adjustment. An appointed director will not be required to stand for election by our shareholders. See the section entitled Description of Shares Voting and Consent Rights Board of Directors Appointee for more information about our manager s right to appoint a director.

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An illustration of our organizational structure is set forth below.

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The Offering

Shares offered by us in this offering.	8,000,000 shares
Shares outstanding after this offering and the separate private placement transaction	30,214,706 shares
Use of proceeds	We estimate that our net proceeds from the sale of the shares in this offering will be approximately $129.2 million (or approximately $148.6 million if the underwriters overallotment option is exercised in full), but without giving effect to the payment of public offering costs of approximately $2.2 million. We intend to use the net proceeds from this offering and the $30 million of proceeds from the separate private placement transaction to repay borrowings under our revolving credit facility and any remaining amounts for general corporate purposes. See the section entitled Use of Proceeds for more information about the use of the proceeds of this offering.
NASDAQ Global Select Market symbol	CODI
Dividend and distribution policy	We intend to declare and pay regular quarterly cash distributions on all outstanding shares, based on distributions received by the trust on the trust interests in the company. The declaration and amount of any distributions will be subject to the approval of the company s board of directors, which will include a majority of independent directors, and will be based on the results of operations of our businesses and the desire to provide sustainable levels of distributions to our shareholders. Any cash distribution paid by the company to the trust will, in turn, be paid by the trust to its shareholders. See the sections entitled Dividend and Distribution Policy for a discussion of our intended distribution rate and Material U.S. Federal Income Tax Considerations for more information about the tax treatment of distributions by the trust and the company.
Shares of the trust	Each share of the trust represents an undivided beneficial interest in the trust property, and each share of the trust corresponds to one underlying trust interest of the company owned by the trust. Unless the trust is dissolved, it must remain the sole holder of 100% of the trust interests, and at all times the company will have outstanding the identical number of trust interests as the number of outstanding shares of the trust. If the trust is dissolved, each share of the trust will be exchanged for one trust interest in the company. Each outstanding share of the trust is entitled to one vote on any matter with respect to which the trust, as a holder of trust interests in the company, is entitled to vote. The company, as the sponsor of the trust, will provide to our shareholders proxy materials to enable our shareholders to exercise, in proportion to their percentage ownership of outstanding shares, the voting rights of the trust, and the trust will vote its trust interests in the same proportion as the vote of holders of shares. The

allocation

	interests do not grant to our manager voting rights with respect to the company except in certain limited circumstances.
	See the section entitled Description of Shares for information about the material terms of the shares, the trust interests and allocation interests.
U.S. federal income tax considerations	Subject to the discussion in Material U.S. Federal Income Tax Considerations, neither the trust nor the company will incur U.S. federal income tax liability; rather, each holder of trust shares will be required to take into account his or her allocable share of company income, gain, loss, deduction, and other items. The trust is currently seeking approval from the shareholders of record as of April 10, 2007, to authorize the board to amend the trust agreement to provide that the trust be taxed as a partnership. Assuming that approval is granted, the trust will report tax information to the shareholders for the 2007 taxable year and all future taxable years thereafter on Schedule K-1. If that approval is not granted, the trustees intend to dissolve the trust and each shareholder would receive a direct interest in the company in exchange for their shares in the trust. If that occurs, the company will continue to treat the trust as a grantor trust for the initial portion of the 2007 tax year and the trust will report the same tax information as found on the Schedule K-1 to the shareholders on Form 1041.
	See the section entitled Material U.S. Federal Income Tax Considerations for information about the potential U.S. federal income tax consequences of the purchase, ownership and disposition of shares and for a discussion of recent developments concerning treatment of the trust as a grantor trust for federal income tax purposes.
Risk factors	Investing in our shares involves risks. See the section entitled Risk Factors and read this prospectus carefully before making an investment decision with the respect to the shares or the company.

The number of shares to be outstanding after this offering is based on the shares outstanding as of December 31, 2006. Except as otherwise noted, all information in this prospectus assumes that the underwriters overallotment option is not exercised. If the overallotment option is exercised in full, we will issue and sell an additional 1,200,000 shares.

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Summary Financial Data

The following table sets forth selected historical and other data of the company and should be read in conjunction with the more detailed consolidated financial statements included elsewhere in this prospectus. On January 5, 2007, we executed a purchase and sale agreement to sell our majority-owned subsidiary, Crosman, for approximately $143 million in cash. As a result, the operating results of Crosman for the period of its acquisition by us (May 16, 2006) through December 31, 2006 are being reported as discontinued operations in accordance with SFAS 144, and as such are not included in the data below. We will recognize a gain of approximately $35.9 million from the sale of Crosman in fiscal 2007.

Selected financial data below includes the results of operations, cash flow and balance sheet data of the company for the years ended December 31, 2005 and 2006. We were incorporated on November 18, 2005, which we refer to as our inception. Financial data included for the year ended December 31, 2005, therefore only includes the minimal activity experienced from inception to December 31, 2005.

We completed the IPO on May 16, 2006 and used the proceeds from the IPO, separate private placement transactions that closed in conjunction with the IPO and our third party credit facility to purchase controlling interests in four businesses. On August 1, 2006, we purchased a controlling interest in an additional business, Anodyne. Financial data included below therefore only includes activity in our businesses from May 16, 2006 through December 31, 2006, and in the case of Anodyne, from August 1, 2006 through December 31, 2006.

Because we acquired Aeroglide and Halo in February 2007, financial data is not presented for these businesses.

	Fiscal Year Ended December 31, 2006	2005
	($ in thousands, except per share data)	
Statements of Operations Data:		
Net sales	$ 410,873	$
Cost of sales	311,641	
Gross profit	99,232	
Operating expenses:		
Staffing	34,345	
Selling, general and administrative	36,732	1
Management fee	4,376	
Supplemental put expense	22,456	
Research and development expense	1,806	
Amortization expense	6,774	
Operating loss	$ (7,257)	$ (1)
Loss from continuing operations	$ (27,636)	$ (1)
Income from discontinued operations, net of income tax	$ 8,387	$

Net loss	$ (19,249)	$ (1)
Cash Flow Data:		
Cash provided by operating activities	$ 20,563	$
Cash (used in) investing activities	(362,286)	
Cash provided by financing activities	351,073	100
Net increase in cash	$ 9,350	$ 100
Per Share Data:		
Basic and fully diluted loss from continuing operations per share	$ (2.18)	$
Basic and fully diluted loss per share	$ (1.52)	$

	At December 31, 2006	2005
	($ in thousands)	
Balance Sheet Data:		
Total current assets	$ 140,356	$ 3,408
Total assets	525,597	3,408
Current liabilities	162,872	3,309
Long-term debt		
Total liabilities	242,755	3,309
Minority interests	27,131	100
Shareholders equity (deficit)	255,711	(1)

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Management s estimated cash available for distribution as of December 31, 2006 is approximately $23.7 million. Cash available for distribution is a non-GAAP measure that we believe provides additional information to evaluate our ability to make anticipated quarterly distributions. The table below details cash receipts and payments that are not reflected on our income statement in order to provide cash available for distribution. Cash available for distribution is not necessarily comparable with similar measures provided by other entities. We believe that cash available for distribution, together with future distributions and cash available from our businesses (net of reserves) will be sufficient to meet our anticipated distributions over the next twelve months. The table below reconciles cash available for distribution to net income and to cash flow provided by operating activities, which we consider to be the most directly comparable financial measure calculated and presented in accordance with GAAP.

	Year Ended December 31, 2006 ($ in thousands)	
Net loss	$	(19,249)
Adjustment to reconcile net loss to cash provided by operating activities		
Depreciation and amortization		10,290
Supplemental put expense		22,456
Silvue s in-process R&D expensed at acquisition date		1,120
Advanced Circuit s loan forgiveness accrual		2,760
Minority interest		2,950
Deferred taxes		(2,281)
Loss on Ableco debt retirement		8,275
Other		(450)
Changes in operating assets and liabilities		(5,308)
Net cash provided by operating activities		20,563
Plus:		
Unused fee on delayed term loan(1)		1,291
Changes in operating assets and liabilities		5,308
Less:		
Maintenance capital expenditures(2)		
CBS Personnel		209
Crosman(3)		1,926
Advanced Circuits		392
Silvue		304
Anodyne		636
Estimated cash flow available for distribution	$	23,695(a)
Distribution paid July 2006	$	(2,587)
Distribution paid September 2006		(5,368)
Distribution paid January 2007		(6,135)
Total distributions	$	(14,090)(b)
Distribution Coverage Ratio(a)÷(b)		1.7x

(1) Represents the commitment fee on the unused portion of our third-party loans.

(2) Represents maintenance capital expenditures that were funded from operating cash flow and excludes approximately $2.3 million of growth capital expenditures for the period ended December 31, 2006.

(3) Crosman was sold on January 5, 2007 (see Note D to the consolidated financial statements).

Cash flows of certain of our businesses are seasonal in nature. Cash flows from CBS Personnel are typically lower in the first quarter of each year than in other quarters due to reduced seasonal demand for temporary staffing services and to lower gross margins during that period associated with the front-end loading of certain taxes and other payments associated with payroll paid to our employees. Cash flows from Halo are typically higher in the fourth quarter of each year than in other quarters due to increased seasonal demands for calendars and other promotional products among other factors.

RISK FACTORS

An investment in our shares involves a high degree of risk. You should carefully read and consider all of the risks described below, together with all of the other information contained or referred to in this prospectus, before making a decision to invest in our shares. If any of the following events occur, our financial condition, business and results of operations (including cash flows) may be materially adversely affected. In that event, the market price of our shares could decline, we may be unable to pay distributions on our shares and you could lose all or part of your investment. Throughout this section we refer to our current businesses and the businesses we may acquire in the future collectively as our businesses.

Risks Related to Our Business and Structure

We are a company with limited history and may not be able to continue to successfully manage our businesses on a combined basis.

We were formed on November 18, 2005 and have conducted operations since May 16, 2006. Although our management team has collectively approximately 75 years of experience in acquiring and managing middle market businesses, our failure to continue to develop and maintain effective systems and procedures, including accounting and financial reporting systems, or to manage our operations as a consolidated public company, may negatively impact our ability to optimize the performance of the company, which could adversely affect our ability to pay distributions to our shareholders. In that case, our consolidated financial statements might not be indicative of our financial condition, business and results of operations.

Our consolidated financial statements will not include meaningful comparisons to prior years.

Our audited financial statements only include consolidated results of operations and cash flows for the period from May 16, 2006 through December 31, 2006. Consequently, meaningful year-to-year comparisons are not available and will not be available, at the earliest, until the completion of fiscal 2008.

Our future success is dependent on the employees of our manager and the management teams of our businesses, the loss of any of whom could materially adversely affect our financial condition, business and results of operations.

Our future success depends, to a significant extent, on the continued services of the employees of our manager, most of whom have worked together for a number of years. While our manager has employment agreements with certain of its employees, including our chief financial officer, these employment agreements may not prevent our manager s employees from leaving our manager or from competing with us in the future. Our manager does not have an employment agreement with our chief executive officer.

In addition, the future success of our businesses also depends on their respective management teams because we operate our businesses on a stand-alone basis, primarily relying on existing management teams for management of their day-to-day operations. Consequently, their operational success, as well as the success of our internal growth strategy, will be dependent on the continued efforts of the management teams of the businesses. We seek to provide such persons with equity incentives in their respective businesses and to have employment agreements and/or non-competition agreements with certain persons we have identified as key to their businesses. However, these measures do not ensure performance of key personnel, and may not prevent them from departing or competing with our businesses in the future. The loss of services of one or more members of our management team or the management team at one of our businesses could materially adversely affect our financial condition, business and results of operations.

We are a holding company with no operations and rely entirely on distributions from our businesses to make distributions to our shareholders.

The trust s only business is holding trust interests in the company, which holds controlling interests in our businesses. Therefore, we are dependent upon the ability of our businesses to generate earnings and cash flow and distribute them to us in the form of interest and principal payments on indebtedness and distributions or dividends on equity to enable us, first, to satisfy our financial obligations, including payments under our revolving credit facility, the management fee, profit allocation and put price, and, second, make distributions to our shareholders. The ability of our businesses to make distributions to us may be subject to limitations under laws of the jurisdictions in which they are incorporated or organized. If, as a consequence of these various restrictions, we are unable to generate sufficient distributions from our businesses, we may not be able to declare, or may have to delay or cancel payment of, distributions to our shareholders, which may have a material adverse effect on the market price of our shares. See Dividend and Distribution Policy Restrictions on Distribution Payments for a more detailed discussion of these restrictions.

We do not own 100% of our businesses. While the company will receive cash payments from our businesses in the form of interest payments, debt repayment and dividends and distributions, if any dividends or distributions are paid by our businesses, they will be shared pro rata with the minority shareholders of our businesses and the amounts of distributions made to minority shareholders will not be available to us for any purpose, including payment of our obligations or distributions to our shareholders. Any proceeds from the sale of a business, after payment of the profit allocation to our manager, will be allocated among us and the minority shareholders of the business that is sold; however, we will not necessarily declare a distribution to our shareholders with respect to such proceeds.

While we intend to make regular cash distributions to our shareholders, the company s board of directors has full authority and discretion over the distributions of the company, other than the profit allocation, and it may decide to reduce or eliminate distributions at any time, which may materially adversely affect the market price for our shares.

To date, we have declared and paid quarterly distributions, and although we intend to pursue a policy of paying regular distributions, the company s board of directors has full authority and discretion to determine whether or not a distribution by the company should be declared and paid to the trust and in turn to our shareholders, as well as the amount and timing of any distribution. In addition, the management fee, profit allocation, put price and payments under our revolving credit facility, are payment obligations of the company and, as a result, will be paid, along with other company obligations, prior to the payment of distributions to our shareholders. The company s board of directors may, based on their review of our financial condition and results of operations and pending acquisitions, determine to reduce or eliminate distributions, which may have a material adverse effect on the market price of our shares. See Dividend and Distribution Policy Restrictions on Distribution Payments for a more detailed discussion of these restrictions.

We may not be able to successfully fund future acquisitions of new businesses due to the unavailability of debt or equity financing at the company level on acceptable terms, which could impede the implementation of our acquisition strategy and materially adversely impact our financial condition, business and results of operations.

In order to make future acquisitions, we intend to raise capital primarily through debt financing at the company level, additional equity offerings, the sale of stock or assets of our businesses, and by offering equity in the trust or our businesses to the sellers of target businesses or by undertaking a combination of any of the above. Since the timing and size of acquisitions cannot be readily predicted, we may need to be able to obtain funding on short notice to benefit fully from attractive acquisition opportunities. Such funding may not be available on acceptable terms. In addition, the level of our indebtedness may impact our ability to borrow at the company level and the revolving credit facility or other credit agreements we may enter into in the future may contain terms that prohibit us from making acquisitions that may be otherwise advantageous. Another source of capital for us may be the sale of additional shares, subject to market conditions and investor demand for the shares at prices that we consider to be in the interests of our shareholders. These risks may materially adversely affect our ability to pursue our acquisition strategy successfully and materially adversely affect our financial condition, business and results of operations.

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We face risks with respect to the evaluation and management of future platform or add-on acquisitions.

A component of our strategy is to continue to acquire new businesses, which we refer to as new platforms, as well as to acquire add-on businesses to our existing platforms. Generally, because such acquisition targets are held privately, we may experience difficulty in evaluating potential target businesses as the information concerning these businesses is not publicly available. Further, the time and costs associated with identifying and evaluating potential target businesses and their industries may cause a substantial drain on our financial resources and our management team s attention. In addition, we and our businesses may have difficulty effectively managing or integrating acquisitions. We may experience greater than expected costs or difficulties relating to such acquisitions, in which case we might not achieve the anticipated returns from any particular acquisition, which may have a material adverse effect on our financial condition, business and results of operations.

The company s board of directors has the power to change the terms of our shares in its sole discretion in ways with which you may disagree.

As an owner of our shares (or if the trust is dissolved, as a direct owner of trust interests in the company), you may disagree with changes made to the terms of our shares or trust interests in the company, and you may disagree with the company s board of directors decision that the changes made to the terms of the shares or trust interests in the company are not materially adverse to you as a shareholder or that they do not alter the characterization of the trust. Your recourse, if you disagree, will be limited because the amended and restated trust agreement of the trust, which we refer to as the trust agreement, and the amended and restated LLC agreement of the company, which we refer to as the LLC agreement, give broad authority and discretion to our board of directors. However, neither the trust agreement nor the LLC agreement relieve the company s board of directors from any fiduciary obligation that is imposed on them pursuant to applicable law. In addition, we may change the nature of the shares (or if the trust is dissolved, the trust interests in the company) to be issued to raise additional equity.

Certain provisions of the LLC agreement of the company and the trust agreement make it difficult for third parties to acquire control of the trust and the company and could deprive you of the opportunity to obtain a takeover premium for your shares.

The LLC agreement and the trust agreement contain a number of provisions that could make it more difficult for a third party to acquire, or may discourage a third party from acquiring, control of the trust and the company. These provisions include, among others:

- restrictions on the company s ability to enter into certain transactions with our major shareholders, with the exception of our manager, modeled on the limitation contained in Section 203 of the Delaware General Corporation Law, or DGCL;

- allowing the chairman of the company s board of directors to fill vacancies on the company s board of directors until the 2008 annual meeting of shareholders;

- allowing only the company s board of directors to fill newly created directorships, for those directors who are elected by our shareholders, and allowing only our manager, as holder of the allocation interests, to fill vacancies with respect to the class of directors appointed by our manager;

- requiring that directors elected by our shareholders be removed, with or without cause, by a vote of 85% of our shareholders;

requiring advance notice for nominations of candidates for election to the company s board of directors or for proposing matters that can be acted upon by our shareholders at a shareholders meeting;

authorizing a substantial number of additional authorized but unissued shares that may be issued without shareholder action;

providing the company s board of directors with certain authority to amend the LLC agreement, subject to certain voting and consent rights of the holders of trust interests and allocation interests, and the trust agreement, subject to certain voting and consent rights of the holders of the trust shares;

providing for a staggered board of directors of the company, the effect of which could be to deter a proxy contest for control of the company s board of directors or a hostile takeover; and

limitations regarding shareholders calling special meetings and acting by written consent.

These provisions, as well as other provisions in the LLC agreement and trust agreement, may delay, defer or prevent a transaction or a change in control that might otherwise result in you obtaining a takeover premium for your shares.

We may have conflicts of interest with the minority shareholders of our businesses.

The boards of directors of our respective businesses have fiduciary duties to all their shareholders, including the company and minority shareholders. As a result, they may make decisions that are in the best interests of their shareholders generally but which are not necessarily in the best interest of the company and therefore the best interests of our shareholders. In dealings with the company, the directors of our businesses may have conflicts of interest and decisions may have to be made without the participation of those directors. Such decisions, therefore, may be different from those that we would otherwise make.

Our third party revolving credit facility exposes us to additional risks associated with leverage and inhibits our operating flexibility and reduces cash flow available for distributions to our shareholders.

At February 28, 2007, we had approximately $97.4 million of debt outstanding and we expect to increase our level of debt in the future. The revolving credit facility contains various covenants, including financial covenants, with which we must comply. The financial covenants include: (i) a requirement to maintain, on a consolidated basis, a fixed charge coverage ratio of at least 1.5:1, (ii) an interest coverage ratio not to exceed less than 3:1 and (iii) a total debt to earnings before interest, depreciation and amortization ratio not to exceed 3:1. In addition, the revolving credit facility contains limitations on, among other things, certain acquisitions, consolidations, sales of assets and the incurrence of debt. Currently we are in compliance with all covenants. Outstanding indebtedness under the revolving credit facility will mature on November 21, 2011.

If we violate any of these or other covenants, our lender may accelerate the maturity of any debt outstanding and we may be prohibited from making any distributions to our shareholders. Our debt is secured by all of our assets, including the stock we own in our businesses and the rights we have under the loan agreements with our businesses. Our ability to meet our debt service obligations may be affected by events beyond our control and will depend primarily upon cash produced by our businesses. Any failure to comply with the terms of our indebtedness could materially adversely affect us.

Changes in interest rates could materially adversely affect us.

Our revolving credit facility bears interest at floating rates which will generally change as interest rates change. We have not hedged our exposure to interest rates on our revolving credit facility but may consider doing so in the future. If we do not hedge such exposure, we bear the risk that the rates we are charged by our lender will increase faster than the earnings and cash flow of our businesses, which could reduce profitability, adversely affect our ability to service our debt, cause us to breach covenants contained in our revolving credit facility and reduce cash flow available for distribution, any of which could materially adversely affect us. In addition, the interest rates under our revolving credit facility vary depending on certain financial ratios; therefore, if we fail to achieve these ratios, we will be obligated to pay additional interest.

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We may engage in a business transaction with one or more target businesses that have relationships with our officers, our directors, our manager or CGI, which may create potential conflicts of interest.

We may decide to acquire one or more businesses with which our officers, our directors, our manager or CGI have a relationship. While we might obtain a fairness opinion from an independent investment banking firm, potential conflicts of interest may still exist with respect to a particular acquisition, and, as a result, the terms of the acquisition of a target business may not be as advantageous to our shareholders as it would have been absent any conflicts of interest.

CGI may exercise significant influence over the company.

CGI, through a wholly owned subsidiary, currently owns 7,350,000 or 35.9% of our shares and will purchase an additional 1,764,706 shares in a separate private placement transaction. As a result, CGI will own approximately 30.2% of our shares and may have significant influence over the company, including the election of directors, in the future as well as matters requiring the approval of our shareholders, including the removal of our manager.

If in the future we cease to control and operate our businesses, we may be deemed to be an investment company under the Investment Company Act of 1940, as amended.

Under the terms of the LLC agreement, we have the latitude to make investments in businesses that we will not operate or control. If we make significant investments in businesses that we do not operate or control or cease to operate and control our businesses, we may be deemed to be an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. If we were deemed to be an investment company, we would either have to register as an investment company under the Investment Company Act, obtain exemptive relief from the SEC or modify our investments or organizational structure or our contract rights to fall outside the definition of an investment company. Registering as an investment company could, among other things, materially adversely affect our financial condition, business and results of operations, materially limit our ability to borrow funds or engage in other transactions involving leverage, require us to add directors who are independent of us or our manager, divert the attention of our management team and otherwise will subject us to additional regulation that will be costly and time-consuming. In addition, if we are required to register as an investment company we will no longer satisfy the requirements to be treated as a publicly traded partnership exempt from taxation as a corporation for federal income tax purposes.

Risks Relating to Our Manager

Our chief executive officer, directors, manager and management team may allocate some of their time to other businesses, thereby causing conflicts of interest in their determination as to how much time to devote to our affairs, which may materially adversely affect our operations.

While the members of our management team anticipate devoting a substantial amount of their time to the affairs of the company, only Mr. James Bottiglieri, our chief financial officer, will devote 100% of his time to our affairs. Mr. I. Joseph Massoud, our chief executive officer, and our directors, manager and other members of our management team may engage in other business activities. This may result in a conflict of interest in the allocation of their time between their management and operations of our businesses and their management and operations of other businesses. Their other business endeavors may be related to CGI, which will continue to own several businesses that were managed by our management team prior to the IPO, or affiliates of CGI or other parties. Conflicts of interest that arise over the allocation of time may not always be resolved in our favor and may materially adversely affect our operations. See the section entitled Certain Relationships and Related Party Transactions for a discussion of the potential conflicts of interest of which you should be aware.

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Our manager and its affiliates, including members of our management team, may engage in activities that compete with us or our businesses.

While our management team intends to devote a substantial majority of their time to the affairs of the company, and while our manager and its affiliates currently do not manage any other businesses that are in similar lines of business as our businesses, and while our manager must present all opportunities that meet the company s acquisition and disposition criteria to the company s board of directors, neither our management team nor our manager is expressly prohibited from investing in or managing other entities, including those that are in the same or similar line of business as our businesses. In this regard, the management services agreement and the obligation to provide management services will not create a mutually exclusive relationship between our manager and its affiliates, on the one hand, and the company, on the other. Our manager s or our management team s investment in or management of businesses that compete with our businesses may result in conflicts of interest that are not resolved in favor of our businesses, which may adversely affect our financial condition, business and results of operations.

Our manager need not present an acquisition or disposition opportunity to us if our manager determines on its own that such acquisition or disposition opportunity does not meet the company s acquisition or disposition criteria.

Our manager will review any acquisition or disposition opportunity presented to our manager to determine if it satisfies the company s acquisition or disposition criteria, as established by the company s board of directors from time to time. If our manager determines, in its sole discretion, that an opportunity fits our criteria, our manager will refer the opportunity to the company s board of directors for its authorization and approval prior to the consummation thereof. Opportunities that our manager determines do not fit our criteria do not need to be presented to the company s board of directors for consideration. If such an opportunity is ultimately profitable, we will have not participated in such opportunity. Upon a determination by the company s board of directors not to promptly pursue an opportunity presented to it by our manager in whole or in part, our manager will be unrestricted in its ability to pursue such opportunity, or any part that we do not promptly pursue, on its own or refer such opportunity to other entities, including its affiliates.

We cannot remove our manager solely for poor performance, which could limit our ability to improve our performance and could materially adversely affect our financial condition, business and results of operations.

Under the terms of the management services agreement, our manager cannot be removed as a result of underperformance. Instead, the company s board of directors can only remove our manager in certain limited circumstances or upon a vote by the majority of the company s board of directors and the majority of our shareholders to terminate the management services agreement. If our manager underperforms, this limitation could materially adversely affect our financial condition, business and results of operations.

We may have difficulty severing ties with our chief executive officer, Mr. Massoud.

Under the management services agreement, the company s board of directors may, after due consultation with our manager, at any time request that our manager replace any individual seconded to the company and our manager will, as promptly as practicable, replace any such individual. However, because Mr. Massoud is the managing member of our manager, we may have difficulty completely severing ties with Mr. Massoud unless we terminate the management services agreement and our relationship with our manager in which case we may be required to purchase the allocation interests of the company held by our manager at a significant cost to us.

If the management services agreement is terminated, our manager, as holder of the allocation interests in the company, has the right to cause the company to purchase such allocation interests, which may materially adversely affect our liquidity and ability to grow.

If the management services agreement is terminated at any time other than as a result of our manager s resignation or if our manager resigns on any date that is at least three years after May 16, 2006 (the closing of the IPO), our manager will have the right, but not the obligation, for one year from the date of termination or resignation, as the case may be, to cause the company to purchase the allocation interests for the put price. If our manager elects to cause the company to purchase its allocation interests, we are obligated to do so, such purchase would be a significant expense to us and would adversely affect our financial condition and results of operations, and, until we have done so, our ability to conduct our business, including incurring debt, would be restricted and, accordingly, our liquidity and ability to grow may be adversely affected.

The liability associated with the supplemental put agreement is difficult to estimate and may be subject to substantial period-to-period changes, thereby significantly impacting our future results of operations.

The company will record the supplemental put agreement at its fair value at each balance sheet date by recording any change in fair value through its income statement. The fair value of the supplemental put agreement is largely related to the value of the profit allocation that our manager, as holder of allocation interests, would receive in connection with the sale of our businesses or, at our manager s option, after a controlling interest in a business has been held for five years. At any point in time, the supplemental put liability recorded on the company s balance sheet is our manager s estimate of what its allocation interests are worth based upon a percentage of the increase in fair value of our businesses over our basis in those businesses. Because the supplemental put price would be calculated based upon an assumed profit allocation for the sale of all of our businesses, the growth of the supplemental put liability over time is indicative of our manager s estimate of the company s unrealized gains on its interests in our businesses. A decline in the supplemental put liability is indicative either of the realization of gains associated with the sale a business and the corresponding payment of a profit allocation to our manager (as with Crosman), or a decline in our manager s estimate of the company s unrealized gains on its interests in our businesses. We account for the change in the estimated value of the supplemental put liability on a quarterly basis in our income statement. The expected value of the supplemental put liability effects our results of operation but it does not affect our cash flows or our cash flow available for distribution. The valuation of the supplemental put agreement requires the use of complex models, which require highly sensitive assumptions and estimates. The impact of over-estimating or under-estimating the value of the supplemental put agreement could have a material effect on operating results. In addition, the value of the supplemental put agreement is subject to the volatility of our operations which may result in significant fluctuation in the value assigned to this supplemental put agreement.

Our manager can resign on 90 days notice and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could materially adversely affect our financial condition, business and results of operations as well as the market price of our shares.

Our manager has the right, under the management services agreement, to resign at any time on 90 days written notice, whether we have found a replacement or not. If our manager resigns, we may not be able to contract with a new manager or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 90 days, or at all, in which case our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management, acquisition activities and supervision of our businesses is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our manager and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our businesses may result in additional costs and time delays that could materially adversely affect our financial condition, business and results of operations.

We must pay our manager the management fee regardless of our performance.

Our manager is entitled to receive a management fee that is based on our adjusted net assets, as defined in the management services agreement, regardless of the performance of our businesses. The calculation of the management fee is unrelated to the company s net income. As a result, the management fee may incentivize our manager to increase the amount of our assets, through, for example, the acquisition of additional assets or the incurrence of third party debt rather than increase the performance of our businesses. In addition, if the performance of the company declines, assuming adjusted net assets remains the same, management fees will increase as a percentage of the company s net income.

We cannot determine the amount of the management fee that will be paid over time with any certainty.

The management fee for the year ended December 31, 2006, was $4.4 million. The management fee is calculated by reference to the company s adjusted net assets at the end of each fiscal quarter, which will be impacted by the acquisition or disposition of businesses, which can be significantly influenced by our manager, as well as the performance of our businesses. Changes in adjusted net assets and in the resulting management fee could be significant, resulting in a material adverse effect on the company s results of operations.

We cannot determine the amount of profit allocation that will be paid over time with any certainty.

Because the profit allocation is triggered by the sale of one or our businesses or, at our manager s election, ownership of one of our businesses for a period of five years, we cannot determine the amount of profit allocation that will be paid over time with any certainty. Such determination would be dependent on the potential sale proceeds received for any of our businesses and the performance of the company and its businesses over a multi-year period of time, among other factors that cannot be predicted with certainty at this time. Such factors may have a significant impact on the amount of any profit allocation to be paid. Likewise, such determination would be dependent on whether certain hurdles were surpassed giving rise to a payment of profit allocation. Any amounts paid in respect of the profit allocation are unrelated to the management fee earned for performance of services under the management services agreement.

The fees to be paid to our manager pursuant to the management services agreement, the offsetting management services agreements and transaction services agreements, the profit allocation and put price to be paid to our manager as holder of the allocation interests, pursuant to the LLC agreement may significantly reduce the amount of cash flow available for distribution to our shareholders.

Under the management services agreement, the company will be obligated to pay a management fee to, and, subject to certain conditions, reimburse the costs and out-of-pocket expenses of, our manager incurred on behalf of the company in connection with the provision of services to the company. Similarly, our businesses will be obligated to pay fees to and reimburse the costs and expenses of our manager pursuant to any offsetting management services agreements entered into between our manager and one of our businesses, or any transaction services agreements to which such businesses are a party. In addition, our manager, as holder of the allocation interests, will be entitled to receive profit allocations and may be entitled to receive the put price upon the occurrence of certain trigger events. While it is difficult to quantify with any certainty the actual amount of any such payments in the future, we do expect that such amounts could be substantial. See the sections entitled Our Manager Our Relationship with Our Manager and Supplemental Put Agreement and Certain Relationships and Related Party Transactions for more information about these payment obligations of the company. The management fee, profit allocation and put price will be payment obligations of the company and, as a result, will be paid, along with other company obligations, prior to the payment of distributions to shareholders. As a result, the payment of these amounts may significantly reduce the amount of cash flow available for distribution to our shareholders.

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Our manager s influence on conducting our operations, including on our engaging in acquisition or disposition transactions, gives it the ability to increase its fees and compensation to our chief executive officer, which may reduce the amount of cash available for distribution to our shareholders.

Under the terms of the management services agreement, our manager is paid a management fee calculated as a percentage of the company s adjusted net assets for certain items and is unrelated to net income or any other performance base or measure. Our manager, which our chief executive officer, Mr. Massoud, controls, may advise us to consummate transactions, incur third party debt or conduct our operations in a manner that, in our manager s reasonable discretion, are necessary to the future growth of our businesses and are in the best interests of our shareholders. These transactions, however, may increase the amount of fees paid to our manager. In addition, Mr. Massoud s compensation is paid by our manager from the management fee it receives from the company. Our manager s ability to increase its fees, through the influence it has over our operations, may increase the compensation paid by our manager to Mr. Massoud. Our manager s ability to influence the management fee paid to it by us could reduce the amount of cash flow available for distribution to our shareholders.

Fees paid by the company and our businesses pursuant to transaction services agreements do not offset fees payable under the management services agreement and will be in addition to the management fee payable by the company under the management services agreement and by our businesses under offsetting management services agreements.

The management services agreement provides that our businesses may enter into transaction services agreements with our manager pursuant to which our businesses will pay fees to our manager. See the section entitled Certain Relationships and Related Party Transactions for more information about these agreements. Unlike fees paid under the offsetting management services agreements, fees that are paid pursuant to such transaction services agreements will not reduce the management fee payable by the company. Therefore, such fees will be in addition to the management fee payable by the company.

The fees to be paid to our manager pursuant to these transaction service agreements will be paid prior to any principal, interest or dividend payments to be paid to the company by our businesses, which will reduce the amount of cash flow available for distributions to shareholders.

Our manager s profit allocation may induce it to make suboptimal decisions regarding our operations.

Our manager, as holder of 100% of the allocation interests in the company, will receive a profit allocation based on ongoing cash flows and capital gains in excess of a hurdle rate upon the sale of one of our businesses. As a result, our manager may be incentivized to recommend the sale of one or more of our businesses to the company s board of directors at a time that may not optimal for our shareholders.

The obligations to pay the management fee, profit allocation or put price may cause the company to liquidate assets or incur debt.

If we do not have sufficient liquid assets to pay the management fee, profit allocation or put price, when such payments are due, we may be required to liquidate assets or incur debt in order to make such payments. This circumstance could materially adversely affect our liquidity and ability to make distributions to our shareholders.

Risks Related to Taxation

The status of the trust for tax purposes is uncertain in light of a recent Internal Revenue Service pronouncement and certain actions of the company in response thereto.

The Internal Revenue Service, which we refer to as the IRS, has recently issued a pronouncement stating its position that a grantor trust owning interests in a limited liability company, on facts very similar to our current structure, would be treated as a partnership for federal income tax purposes, and not as a grantor trust. The rationale for this position is that the overall arrangement permits a variance in the investment of the shareholders, even though the trustees of the trust do not have that power directly.

In light of this development, the company has submitted to its shareholders for approval an amendment to the trust agreement that would permit our board to amend the trust agreement to provide that the trust be treated as a tax partnership effective January 1, 2007, and has also initiated discussions with the IRS with respect to a closing agreement that would permit the trust to be treated as a grantor trust with respect to the 2006 taxable year, and possibly a portion of the 2007 taxable year if shareholder approval is not obtained. See Material U.S. Federal Income Tax Considerations. If the company is not able to satisfactorily conclude a closing agreement, the IRS may challenge the tax status of the trust for 2006 and the portion of 2007 that it is in existence and if successful the trust may lose an opportunity to effectively make an election under Section 754 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, although it intends to take actions to minimize this risk.

All of the company s income could be subject to a corporate entity-level tax in the United States, which could result in a material reduction in cash flow available for distribution to holders of shares of the trust and thus could result in a substantial reduction in the value of the shares.

It is expected that either the trust or the company will be treated as a publicly traded partnership exempt from taxation as a corporation and thus neither the trust nor the company will be subject to a corporate entity-level tax in the United States. See Material U.S. Federal Income Tax Considerations. If the trust or the company fails to satisfy the qualifying income tests or any other requirements to be treated as a publicly traded partnership exempt from taxation as a corporation, it will be treated as a corporation for U.S. federal (and certain state and local) income tax purposes, and would be required to pay income tax at regular corporate rates on its income. Under the qualifying income tests, the trust or company would be treated as a corporation unless each year more than 90% of the gross income of the trust or the company, as the case may be, will consist of dividends, interest (other than interest derived in the conduct of a financial or insurance business or interest the determination of which depends in whole or in part on the income or profits of any person) and gains from the sale of stock or debt instruments which are held as capital assets. Taxation of the trust or the company as a corporation could result in a material reduction in distributions to our shareholders and, thus, would likely result in a reduction in the value of, or materially adversely affect the market price of, the shares of the trust.

Our shareholders will be subject to tax on their share of the company s taxable income, which taxes or taxable income could exceed the cash distributions they receive from the trust.

For so long as the company or the trust (if it is treated as a tax partnership) qualifies to be treated as a publicly traded partnership exempt from taxation as a corporation, shareholders will be allocated their share of the company s taxable income, whether or not the shareholders receive distributions from the trust. See the discussion in Material U.S. Federal Income Tax Considerations. In that case our shareholders will be subject to U.S. federal income tax and, possibly, state, local and foreign income tax, on their share of the company s taxable income, which taxes or taxable income could exceed the cash distributions they receive from the trust. **There is, accordingly, a risk that our shareholders may not receive cash distributions equal to their portion of our taxable income or sufficient in amount even to satisfy their personal tax liability that results from that income.** This may result from gains on the sale or exchange of stock or debt of subsidiaries that will be allocated to shareholders who hold (or are deemed to hold) shares on the day such gains were realized if there is no corresponding distribution of the proceeds from such sales, or where a shareholder disposes of shares after an allocation of gain but before proceeds (if any) are distributed by the trust. Shareholders may also realize income in excess of distributions due to the company s use of cash from operations or sales proceeds for uses other than to make distributions to shareholders, including to fund acquisitions, satisfy short- and long-term working capital needs of our businesses, or satisfy known or unknown liabilities. In addition, certain financial covenants with the company s lenders may limit or prohibit the distribution of cash to shareholders. The company s board of directors is also free to change the company s distribution policy. The company is under no obligation to

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make distributions to shareholders equal to or in excess of their portion of our taxable income or sufficient in amount even to satisfy the tax liability that results from that income.

A shareholder may recognize a greater taxable gain (or a smaller tax loss) on a disposition of shares than expected because of the treatment of debt under the partnership tax accounting rules.

We may incur debt for a variety of reasons, including for acquisitions as well as other purposes. Under partnership tax accounting principles, debt of the company generally will be allocable to our shareholders, who will realize the benefit of including their allocable share of the debt in the tax basis of their investment in shares. At the time a shareholder later sells shares, the selling shareholder s amount realized on the sale will include not only the sales price of the shares but also the shareholder s portion of the company s debt allocable to his shares (which is treated as proceeds from the sale of those shares). Depending on the nature of the company s activities after having incurred the debt, and the utilization of the borrowed funds, a later sale of shares could result in a larger taxable gain (or a smaller tax loss) than anticipated.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of holders of our shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. You should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The present U.S. federal income tax treatment of an investment in our shares may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments and commitments previously made. For example, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for us to be treated as a publicly traded partnership exempt from taxation as a corporation, affect or cause us to change our investments and commitments, affect the tax considerations of an investment in us and adversely affect an investment in our shares. Our organizational documents and agreements permit our board to modify our operating agreement from time to time, without the consent of the holders of our shares, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of the holders of our shares. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders in a manner that reflects such holders beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated, or disallowed, in a manner that adversely affects holders of our shares.

Risks Relating Generally to Our Businesses

Our businesses are or may be vulnerable to economic fluctuations and seasonal factors as demand for their products and services tends to decrease as economic activity slows.

Demand for the products and services provided by our businesses is sensitive to changes in the level of economic activity in the regions and industries in which they do business. For example, as economic activity slows down, companies often reduce their use of temporary employees and their research and development spending. In addition, spending on capital equipment may also decrease in an economic slow down. Regardless of the industry, pressure to reduce prices of goods and services in competitive industries

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increases during periods of economic downturns, which may cause compression on our businesses financial margins. Certain of our businesses are subject to fluctuations in demand due to seasonal factors, which may cause the results of operations to vary significantly from quarter to quarter. In addition, economic downturns may negatively impact the demands or ability to pay of customers of our businesses. As a result, a significant economic downturn could have a material adverse effect on the business, results of operations and financial condition of each of our businesses and therefore on our financial condition, business and results of operations.

The operations and research and development of some of our businesses services and technology depend on the collective experience of their technical employees. If these employees were to leave our businesses and take this knowledge, our businesses operations and their ability to compete effectively could be materially adversely affected.

The future success of some of our businesses depends upon the continued service of their technical employees who have developed and continue to develop their technology and products. If any of these employees leave our businesses, the loss of their technical knowledge and experience may materially adversely affect the operations and research and development of current and future services. We may also be unable to attract technical employees with comparable experience because competition for such employees is intense. If our businesses are not able to replace their technical employees with new employees or attract additional technical employees, their operations may suffer as they may be unable to keep up with innovations in their respective industries. As a result, their ability to continue to compete effectively and their operations may be materially adversely affected.

Our businesses rely on their intellectual property and licenses to use others intellectual property, for competitive advantage. If our businesses are unable to protect their intellectual property, are unable to obtain or retain licenses to use other s intellectual property, or if they infringe upon or are alleged to have infringed upon others intellectual property, it could have a material adverse affect on their financial condition, business and results of operations.

Our businesses success depends in part on their, or licenses to use others , brand names, proprietary technology and manufacturing techniques. Our businesses rely on a combination of patents, trademarks, copyrights, trade secrets, confidentiality procedures and contractual provisions to protect their intellectual property rights. The steps they have taken to protect their intellectual property rights may not prevent third parties from using their intellectual property and other proprietary information without their authorization or independently developing intellectual property and other proprietary information that is similar. In addition, the laws of foreign countries may not protect our businesses intellectual property rights effectively or to the same extent as the laws of the United States. Stopping unauthorized use of their proprietary information and intellectual property, and defending claims that they have made unauthorized use of others proprietary information or intellectual property, may be difficult, time-consuming and costly. The use of their intellectual property and other proprietary information by others could reduce or eliminate any competitive advantage they have developed, cause them to lose sales or otherwise harm their business.

Our businesses may become involved in legal proceedings and claims in the future either to protect their intellectual property or to defend allegations that they have infringed upon others intellectual property rights. These claims and any resulting litigation could subject them to significant liability for damages and invalidate their property rights. In addition, these lawsuits, regardless of their merits, could be time consuming and expensive to resolve and could divert management s time and attention. The costs associated with any of these actions could be substantial and could have a material adverse affect on their financial condition, business and results of operations.

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If our businesses are unable to continue the technological innovation and successful commercial introduction of new products and services, their financial condition, business and results of operations could be materially adversely affected.

The industries in which our businesses operate experience periodic technological changes and ongoing product improvements. Their results of operations depend significantly on the development of commercially viable new products, product upgrades and applications, as well as production technologies and their ability to integrate new technologies. Our future growth will depend on their ability to gauge the direction of the commercial and technological progress in all key end-use markets and upon their ability to successfully develop, manufacture and market products in such changing end-use markets. In this regard, they must make ongoing capital investments.

In addition, their customers may introduce new generations of their own products, which may require new or increased technological and performance specifications, requiring our businesses to develop customized products. Our businesses may not be successful in developing new products and technology that satisfy their customers demands and their customers may not accept any of their new products. If our businesses fail to keep pace with evolving technological innovations or fail to modify their products in response to their customers needs in a timely manner, then their financial condition, business and results of operations could be materially adversely affected as a result of reduced sales of their products and sunk developmental costs.

Our businesses do not have long-term contracts with their customers and clients and the loss of customers and clients could materially adversely affect their financial condition, business and results of operations.

Our businesses are based primarily upon individual orders and sales with their customers and clients. Our businesses historically have not entered into long-term supply contracts with their customers and clients. As such, their customers and clients could cease using their services or buying their products from them at any time and for any reason. The fact that they do not enter into long-term contracts with their customers and clients means that they have no recourse in the event a customer or client no longer wants to use their services or purchase products from them. If a significant number of their customers or clients elect not to use their services or purchase their products, it could materially adversely affect their financial condition, business and results of operations.

Our businesses are subject to federal, state and foreign environmental laws and regulations that expose them to potential financial liability. Complying with applicable environmental laws requires significant resources, and if our businesses fail to comply, they could be subject to substantial liability.

Some of the facilities and operations of our businesses are subject to a variety of federal, state and foreign environmental laws and regulations including laws and regulations pertaining to the handling, storage and transportation of raw materials, products and wastes. Compliance with such laws and regulations currently in place and those that may be enacted in the future will require significant expenditures. Compliance with current and future environmental laws is a major consideration for our businesses as any material violations of these laws can lead to substantial liability, revocations of discharge permits, fines or penalties. Because some of our businesses use hazardous materials and generate hazardous wastes in their operations, they may be subject to potential financial liability for costs associated with the investigation and remediation of their own sites, or sites at which they have arranged for the disposal of hazardous wastes, if such sites become contaminated. Even if they fully comply with applicable environmental laws and are not directly at fault for the contamination, our businesses may still be liable. Costs associated with these risks could have a material adverse effect on our financial condition, business and results of operations.

Some of our businesses rely and may rely on suppliers for the timely delivery of materials used in manufacturing their products. Shortages or price fluctuations in component parts specified by their customers could limit their ability to manufacture certain products, delay product shipments, or cause them to breach supply contracts, all of which may materially adversely affect our financial condition, business and results of operations.

Our financial condition, business and operations could be materially adversely affected if our businesses are unable to obtain adequate supplies of raw materials in a timely manner. Strikes, fuel shortages and delays of providers of logistics and transportation services could disrupt our businesses and reduce sales and increase costs. Many of the products our businesses manufacture require one or more components that are supplied by third parties. Our businesses generally do not have any long-term supply agreements. Therefore our businesses suppliers could cease supplying materials to our businesses at any time, which would require our businesses to find new suppliers, resulting in possible manufacturing delays and increased costs. At various times, there are shortages of some of the components that they use, as a result of strong demand for those components or problems experienced by suppliers. Suppliers of these raw materials may from time to time delay delivery, limit supplies or increase prices due to capacity constraints or other factors, which could materially adversely affect our businesses ability to deliver products on a timely basis. In addition, supply shortages for a particular component can delay production of all products using that component or cause cost increases in those products. Our businesses inability to obtain these needed materials may require them to acquire supplies at higher costs or redesign or reconfigure products to accommodate substitute components, which would slow production or assembly, delay shipments to customers, increase costs and reduce operating income. Our businesses may bear the risk of periodic component price increases, which could increase costs and reduce operating income.

In addition, our businesses may purchase components in advance of their requirements for those components as a result of a threatened or anticipated shortage. In this event, they will incur additional inventory carrying costs, for which they may not be compensated, and have a heightened risk of exposure to inventory obsolescence. If they fail to manage their inventory effectively, our businesses may bear the risk of fluctuations in materials costs, scrap and excess inventory, all of which may materially adversely affect their financial condition, business and results of operations.

Our businesses could experience fluctuations in the costs of raw materials as a result of inflation and other economic conditions, which could have a material adverse effect on their financial condition, business and results of operations.

Changes in inflation could materially adversely affect the costs and availability of raw materials used in our manufacturing businesses, and changes in fuel costs likely will affect the costs of transporting materials from our suppliers and shipping goods to our customers, as well as the effective areas from which we can recruit temporary staffing personnel. For example, for Advanced Circuits, the principal raw materials consist of copper and glass and represent approximately 13.4% of the total cost of goods sold in 2006. Prices for key raw materials such as these may fluctuate during periods of high demand. The ability by our businesses to offset the effect of increases in raw material prices by increasing their prices is uncertain. If our businesses are unable to cover price increases of these raw materials, their financial condition, business and results of operations could be materially adversely affected.

Defects in the products provided by our businesses could result in financial or other damages to their customers, which could result in reduced demand for our businesses products and/or liability claims against our businesses.

Some of the products our businesses produce could potentially result in product liability suits against them. Some of our businesses manufacture products to customer specifications that are highly complex and critical to customer operations. Defects in products could result in customer dissatisfaction or a reduction in or cancellation of future purchases or liability claims against our businesses. If these defects occur frequently, our reputation may be impaired. Defects in products could also result in financial or other damages to customers, for which our businesses may be asked or required to compensate their customers. Any of these outcomes could negatively impact our financial condition, business and results of operations.

Some of our businesses are subject to certain risks associated with the movement of businesses offshore.

Some of our businesses are potentially at risk of losing business to competitors operating in lower cost countries. An additional risk is the movement offshore of some of our businesses customers, leading them to procure products or services from more closely located companies. Either of these factors could negatively impact our financial condition, business and results of operations.

Loss of key customers of some of our businesses could negatively impact our financial condition, business and results of operations.

Some of our businesses have significant exposure to certain key customers, the loss of which could negatively impact our financial condition, business and results of operations.

Our businesses are subject to certain risks associated with their foreign operations or business they conduct in foreign jurisdictions.

Some of our businesses have operations or conduct business outside the United States. Certain risks are inherent in operating or conducting business in foreign jurisdictions, including: exposure to local economic conditions; difficulties in enforcing agreements and collecting receivables through certain foreign legal systems; longer payment cycles for foreign customers; adverse currency exchange controls; exposure to risks associated with changes in foreign exchange rates; potential adverse changes in political environments; withholding taxes and restrictions on the withdrawal of foreign investments and earnings; export and import restrictions; difficulties in enforcing intellectual property rights; and required compliance with a variety of foreign laws and regulations. These risks individually and collectively have the potential to negatively impact our financial condition, business and results of operations.

Our businesses have recorded a significant amount of goodwill and other identifiable intangible assets, which may never be fully realized.

Our businesses collectively had, as of December 31, 2006, $288.0 million of goodwill and intangible assets or 55.5% of our total assets. In connection with the acquisitions of Aeroglide and Halo, we anticipate recording additional goodwill and other intangible assets. In accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards, or SFAS, No. 142, *Goodwill and Other Intangible Assets,* we are required to evaluate goodwill and other intangibles for impairment at least annually. Impairment may result from, among other things, deterioration in the performance of these businesses, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products and services sold by these businesses, and a variety of other factors. Depending on future circumstances, it is possible that we may never realize the full value of these intangible assets. The amount of any quantified impairment must be expensed immediately as a charge to results of operations. Any future determination of impairment of a material portion of goodwill or other identifiable intangible assets could have a material adverse effect on these businesses financial condition and operating results, and could result in a default under our revolving credit facility.

The internal controls of our businesses have not yet been integrated and we have only recently begun to examine the internal controls that are in place for each business. As a result, we may fail to comply with Section 404 of the Sarbanes-Oxley Act or our auditors may report a material weakness in the effectiveness of our internal control over financial reporting.

We are required under applicable law and regulations to integrate the various systems of internal control over financial reporting of our businesses. Beginning with our annual report for the year ending December 31, 2007, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, which we refer to as

Section 404, we will be required to include management s assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. Additionally, our independent registered public accounting firm will be required to issue a report on management s assessment of our internal control over financial reporting and a report on their evaluation of the operating effectiveness of our internal control over financial reporting.

We are evaluating our businesses existing internal controls in light of the requirements of Section 404. During the course of our ongoing evaluation and integration of the internal controls of our businesses, we may identify areas requiring improvement, and may have to design enhanced processes and controls to address issues identified through this review. Since our businesses were not subject to the requirements of Section 404 before being acquired by us, the evaluation of existing controls and the implementation of any additional procedures, processes or controls may be costly. Our initial compliance with Section 404 could result in significant delays and costs and require us to divert substantial resources, including management time and attention, from other activities and hire additional accounting staff to address Section 404 requirements. In addition, under Section 404, we are required to report all significant deficiencies to our audit committee and independent auditor and all material weaknesses to our audit committee and independent auditor and in our periodic reports. We may not be able to successfully complete the procedures, certification and attestation requirements of Section 404 and we or our independent auditor may have to report material weaknesses in connection with the presentation of our financial statements.

If we fail to comply with the requirements of Section 404 or if our auditors report such a significant deficiency or material weakness, the accuracy and timeliness of the filing of our annual report may be materially adversely affected and could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on the market price of the shares.

Risks Related to Advanced Circuits

Unless Advanced Circuits is able to respond to technological change at least as quickly as its competitors, its services could be rendered obsolete, which could materially adversely affect its financial condition, business and results of operations.

The market for Advanced Circuits services is characterized by rapidly changing technology and continuing process development. The future success of its business will depend in large part upon its ability to maintain and enhance its technological capabilities, retain qualified engineering and technical personnel, develop and market services that meet evolving customer needs and successfully anticipate and respond to technological changes on a cost-effective and timely basis. Advanced Circuits core manufacturing capabilities are for 2 to 12 layer printed circuit boards. Trends towards miniaturization and increased performance of electronic products are dictating the use of printed circuit boards with increased layer counts. If this trend continues Advanced Circuits may not be able to effectively respond to the technological requirements of the changing market. If it determines that new technologies and equipment are required to remain competitive, the development, acquisition and implementation of these technologies may require significant capital investments. It may be unable to obtain capital for these purposes in the future, and investments in new technologies may not result in commercially viable technological processes. Any failure to anticipate and adapt to its customers changing technological needs and requirements or retain qualified engineering and technical personnel could materially adversely affect its financial condition, business and results of operations.

Advanced Circuits customers operate in industries that experience rapid technological change that cause short product life cycles and as a result, if the product life cycles of its customers slow materially, and research and development expenditures are reduced, its financial condition, business and results of operations will be materially adversely affected.

Advanced Circuits customers compete in markets that are characterized by rapidly changing technology, evolving industry standards and continuous improvement in products and services. These conditions frequently result in short product life cycles. As professionals operating in research and development

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departments represent the majority of Advanced Circuits net sales, the rapid development of electronic products is a key driver of Advanced Circuits sales and operating performance. Any decline in the development and introduction of new electronic products could slow the demand for Advanced Circuits services and could have a material adverse effect on its financial condition, business and results of operations.

Electronics manufacturing services corporations are increasingly acting as intermediaries, positioning themselves between PCB manufacturers and OEMs, which could reduce operating margins.

Advanced Circuits OEM customers are increasingly outsourcing the assembly of equipment to third party manufacturers. These third party manufacturers typically assemble products for multiple customers and often purchase circuit boards from Advanced Circuits in larger quantities than OEMs. The ability of Advanced Circuits to sell products to these customers at margins comparable to historical averages is uncertain. Any material erosion in margins could have a material adverse effect on Advanced Circuits financial condition, business and results of operations.

Risks Related to Aeroglide

Aeroglide requires additional manufacturing capacity to maintain its current level of growth; failure to add capacity or broaden its outsourcing relationships could adversely affect Aeroglide s financial condition, business and results of operations.

Aeroglide s facilities are at or near capacity. Aeroglide will need to either increase its manufacturing capacity or add outsourced manufacturing capacity in order to materially grow the business. Aeroglide s failure to add capacity or broaden its outsourcing relationships could adversely affect its financial condition, business and results of operations.

Risks Related to Anodyne

Anodyne recently acquired its first three businesses and faces risks associated with consolidation and integration.

Anodyne recently acquired its first three businesses and faces risks associated with consolidation and integration. Anodyne was formed in early 2006 to acquire SenTech Medical Systems, Inc. which we refer to as SenTech, and AMF Support Surfaces, Inc., which we refer to as AMF. On October 5, 2006, Anodyne acquired Anatomic Gobal, Inc., which we refer to as Anatomic. In addition to SenTech, AMF, and Anatomic, Anodyne intends to acquire other businesses in the medical mattress and support surface sector. Anodyne s operating results will be influenced by the ability of Anodyne s management to integrate these other businesses.

Anodyne s business could be materially impacted by fluctuations in raw material costs, such as foam, vinyl or fabric.

Anodyne s results of operations could be materially impacted by fluctuations in the cost of raw materials such as foam, vinyl or fabric. In particular, fluctuations in the cost of polyurethane foam could have a material effect on profitability. Since August 2005, the cost of polyurethane foam has increased significantly, in some cases by over 40%. There can be no assurance that increases in the costs of raw materials such as polyurethane foam can be passed along to customers. Any inability to pass on increases in the costs of raw materials could materially impact Anodyne s profitability.

Certain of Anodyne s products are subject to regulation by the FDA.

Certain of Anodyne s mattress products are Class II devices within Section 201(h) of the Federal Food, Drug and Cosmetic Act (21 USC §321(h)), which we refer to as the FDCA, and, as such, are subject to the requirements of the

FDCA and certain rules and regulations of the Food and Drug Administration, which we refer to as the FDA. Prior to our acquisition of Anodyne, one of its subsidiaries received a warning letter from the FDA in connection with certain deficiencies identified during a regular FDA audit, including noncompliance with certain design control requirements, certain good manufacturing practice regulations and certain record keeping requirements. Anodyne s subsidiary has undertaken corrective measures to address the deficiencies and continues to fully cooperate with the FDA. The FDA has the authority to inspect without notice, and to take any disciplinary action that it sees fit, any one of which may have a material adverse effect on Anodyne s financial condition, business or results of operations.

A change in Medicare Reimbursement Guidelines may reduce demand for Anodyne s products.

Certain changes in Medicare Reimbursement Guidelines if and when effective may reduce the amount of Medicare funds available for purchasing certain products, which could in turn reduce demand for medical support surfaces and have a material adverse effect on Anodyne s financial condition, business or results of operations. We cannot predict when any such change in the Guidelines may be effected, or the effect of such changes on Anodyne s business and operations.

Risks Related to CBS Personnel

CBS Personnel s business depends on its ability to attract and retain qualified staffing personnel that possess the skills demanded by its clients.

As a provider of temporary staffing services, the success of CBS Personnel s business depends on its ability to attract and retain qualified staffing personnel who possess the skills and experience necessary to meet the requirements of its clients or to successfully bid for new client projects. CBS Personnel must continually evaluate and upgrade its base of available qualified personnel through recruiting and training programs to keep pace with changing client needs and emerging technologies. CBS Personnel s ability to attract and retain qualified staffing personnel could be impaired by rapid improvement in economic conditions resulting in lower unemployment, increases in compensation or increased competition. During periods of economic growth, CBS Personnel faces increasing competition for retaining and recruiting qualified staffing personnel, which in turn leads to greater advertising and recruiting costs and increased salary expenses. If CBS Personnel cannot attract and retain qualified staffing personnel, the quality of its services may deteriorate and its financial condition, business and results of operations may be materially adversely affected. Moreover, evolving technological innovations may require CBS Personnel to seek better educated and trained workers, who may not be available in sufficient numbers.

Customer relocation of positions filled by CBS Personnel may materially adversely affect CBS Personnel s financial condition, business and results of operations.

Many companies have built offshore operations, moved their operations to offshore sites that have lower employment costs or outsourced certain functions. If CBS Personnel s customers relocate positions filled by CBS Personnel, this would have a material adverse effect on the financial condition, business and results of operations of CBS Personnel.

CBS Personnel assumes the obligation to make wage, tax and regulatory payments for its employees, and as a result, it is exposed to client credit risks.

CBS Personnel generally assumes responsibility for and manages the risks associated with its employees payroll obligations, including liability for payment of salaries and wages (including payroll taxes), as well as group health and retirement benefits for its leased employees. These obligations are fixed, whether or not its clients make payments required by services agreements, which exposes CBS Personnel to credit risks of its clients, primarily relating to uncollateralized accounts receivables. If CBS Personnel fails to successfully manage its credit risk, its financial condition, business and results of operations may be materially adversely affected.

CBS Personnel is exposed to employment-related claims and costs and periodic litigation that could materially adversely affect its financial condition, business and results of operations.

The temporary services business entails employing individuals and placing such individuals in clients workplaces. CBS Personnel s ability to control the workplace environment of its clients is limited. As the employer of record of its temporary employees, it incurs a risk of liability to its temporary employees and clients for various workplace events, including: claims of misconduct or negligence on the part of its employees; discrimination or harassment claims against its employees, or claims by its employees of discrimination or harassment by its clients; immigration-related claims; claims relating to violations of wage, hour and other workplace regulations; claims relating to employee benefits, entitlements to employee benefits, or errors in the calculation or administration of such benefits; and possible claims relating to misuse of customer confidential information, misappropriation of assets or other similar claims. CBS Personnel may incur fines and other losses and negative publicity with respect to any of these situations. Some the claims may result in litigation, which is expensive and distracts management s attention from the operations of CBS Personnel s business. Furthermore, while CBS Personnel maintains insurance with respect to many of these items, it, may not be able to continue to obtain insurance at a cost that does not have a material adverse effect upon it. As a result, such claims (whether by reason of it not having insurance or by reason of such claims being outside the scope of its insurance) may have a material adverse effect on CBS Personnel s financial condition, business and results of operations.

CBS Personnel s workers compensation loss reserves may be inadequate to cover its ultimate liability for workers compensation costs.

CBS Personnel self-insures its workers compensation exposure for certain employees. The calculation of the workers compensation reserves involves the use of certain actuarial assumptions and estimates. Accordingly, reserves do not represent an exact calculation of liability. Reserves can be affected by both internal and external events, such as adverse developments on existing claims or changes in medical costs, claims handling procedures, administrative costs, inflation, and legal trends and legislative changes. As a result, reserves may not be adequate. If reserves are insufficient to cover the actual losses, CBS Personnel would have to increase its reserves and incur charges to its earnings that could be material.

Risks Related to Halo

Increases in the portion of end customers buying directly from manufacturers could have a material adverse effect on the business of Halo.

The promotional products industry supply chain is comprised of multiple levels. As a distributor, Halo does not manufacture or decorate the promotional products it sells. Though management believes distributors play a valuable role in the industry, increases in the portion of end customers buying directly from manufacturers could have a material adverse effect on the financial condition, business and results of operations of Halo.

The loss of a significant number of account executives could adversely affect the business of Halo.

Halo relies on its large staff of account executives to develop and maintain relationships with end customers. Halo s sales force is comprised of both full time employees and sub-contractors. These professionals have relationships with customers of varying sizes and profitability. Though management believes its compensation structure and sales force support is comparable to or better than many industry participants, there can be no assurance that Halo will be able to retain their continuing services. The loss of a significant number of account executives could adversely affect the business of Halo.

Halo relies on suppliers for the timely delivery of products to end customers. Delays in the delivery of promotional products to customers could adversely affect Halo s results of operations.

Halo often relies on many of its suppliers to ship directly to its end customers. Delays in the shipment of products or supply shortages in promotional products in high demand could affect Halo s reputation and standing with its end customers and adversely affect Halo s results of operations.

Risks Related to Silvue

Silvue derives a significant portion of its revenue from the eyewear industry. Any economic downturn in this market or increased regulations by the FDA, would materially adversely affect its operating results and financial condition.

Silvue s management estimates that in 2006 approximately 88% of its net sales were from the premium eyewear industry. Because Silvue s customers are concentrated in the eyewear industry, the economic factors impacting this industry also impact its operations and revenues. Any downturn in this market would materially adversely affect its operating results and financial condition. Further, Silvue s coating technology is used primarily on mid and high value lenses. A decline in the ophthalmic and sunglass lens industry in general, or a change in consumers preferences from mid and high value lenses to low value lenses within the industry, may have a material adverse effect on its financial condition, business and results of operations.

Silvue s technology is compatible with certain substrates and processes and competes with a number of products currently sold on the market. A change in the substrate, process or competitive landscape could have a material adverse affect on its financial condition, business and results of operations.

Silvue provides material for the coating of polycarbonate, acrylic, glass, metals and other surfaces. Its business is dependent upon the continued use of these substrates and the need for its products to be applied to these substrates. In addition, Silvue s products are compatible with certain application techniques. New application techniques designed to improve performance and decrease costs are being developed that may be incompatible with Silvue s coating technologies. Further, Silvue competes with a number of large and small companies in the research, development, and production of coating systems. A competitor may develop a coating system that is technologically superior and render Silvue s products less competitive. Any of these conditions may have a material adverse effect on its financial condition, business and results of operations.

Risks Related to this Offering

We have broad discretion in using the net proceeds of this offering. Our failure to effectively use these proceeds could adversely affect our ability to earn profits.

We will receive net proceeds in this offering and from the separate private placement transaction of approximately $157.0 million. We intend to use the net proceeds to repay existing indebtedness and for general corporate purposes, including the acquisition of other businesses. If we fail to identify desirable acquisition targets, or fail to effectively consummate such acquisitions, or ability to earn profits could be adversely affected.

Our shares are thinly traded and you may not be able to sell the securities at all or when you want to do so.

Our shares currently are quoted on the NASDAQ Global Select Market and currently are thinly traded. Since the closing of the IPO, the weekly trading volume for our shares has been as low as 71,470 shares per week as reported by

NASDAQ. Our average daily trading volume was 51,054 for the quarter ended March 31, 2007 as reported by NASDAQ. Because of the limited public market for our shares, you may be unable to sell our shares when you want to do so.

Future sales of shares may cause the market price of our shares to decline.

We cannot predict what effect, if any, future sales of our shares, or the availability of shares for future sale, will have on the market price of our shares. Sales of substantial amounts of our shares in the public market following this offering, or the perception that such sales could occur, could materially adversely affect the market price of our shares and may make it more difficult for you to sell your shares at a time and price which you deem appropriate. A decline below the offering price, in the future, is possible. After the consummation of this offering and the separate private placement transaction, there will be 30,214,706 shares of the trust issued and outstanding (31,414,706 shares if the underwriters exercise their overallotment option in full). The 8,000,000 shares sold in this offering (9,200,000 shares if the underwriters exercise their overallotment option in full) will be freely tradable without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act, by persons other than our affiliates within the meaning of Rule 144 under the Securities Act. In addition, under the terms of the registration rights agreements with CGI and Pharos, we will be required to file a shelf registration statement under the Securities Act relating to the resale of all shares owned by such holders (subject to the restrictions contained in those agreements) as soon as reasonably possible following May 16, 2007, the one year anniversary of our IPO. See Certain Relationships and Related Party Transaction Contractual Relationships with Related Parties Registration Rights Agreements.

We, CGI, Pharos I LLC, which we refer to as Pharos, the employees of our manager and our officers and directors have agreed that, with limited exceptions, we and they will not directly or indirectly, without the prior written consent of Citigroup Global Markets Inc., on behalf of the underwriters, offer to sell, sell or otherwise dispose of any shares for a period of 90 days after the date of this prospectus.

We may issue additional debt and equity securities which are senior to our shares as to distributions and in liquidation, which could materially adversely affect the market price of our shares and result in dilution to our shareholders.

In the future, we may attempt to increase our capital resources by entering into additional debt or debt-like financing that is secured by all or up to all of our assets, or issuing debt or equity securities, which could include issuances of commercial paper, medium-term notes, senior notes, subordinated notes or equity securities, including preferred securities. Specifically, we do intend to issue our shares as consideration for future acquisitions. In the event of our liquidation, our lenders and holders of our debt securities would receive a distribution of our available assets before distributions to our shareholders. Any preferred securities, if issued, may have a preference with respect to distributions and upon liquidation, which could further limit our ability to make distributions to our shareholders. Because our decision to incur debt and issue securities in our future offerings will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings and debt financing. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future. Thus, you will bear the risk of our future offerings reducing the value of your shares and diluting your interest in us. In addition, we can change our leverage strategy from time to time without shareholder approval, which could materially adversely affect the market share price of our shares.

Our earnings and cash distributions may affect the market price of our shares.

Generally, the market price of our shares may be based, in part, on the market s perception of our growth potential and our current and potential future cash distributions, whether from operations, sales, acquisitions or refinancings, and on the value of our businesses. For that reason, our shares may trade at prices that are higher or lower than our net asset value per share. Should we retain operating cash flow for investment purposes or working capital reserves instead of distributing the cash flows to our shareholders, the retained funds, while increasing the value of our underlying assets, may materially adversely affect the market price of our shares. Our failure to meet market expectations with respect to earnings and cash distributions could materially adversely affect the market price of our shares.

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If the market price of our shares declines, you may be unable to resell your shares at or above the public offering price. We cannot assure you that the market price of our shares will not fluctuate or decline significantly, including a decline below the public offering price, in the future.

The market price, trading volume and marketability of our shares may, from time to time, be significantly affected by numerous factors beyond our control, which may materially adversely affect the market price of your shares and our ability to raise capital through future equity financings.

The market price and trading volume of our shares may fluctuate significantly. Many factors that are beyond our control may significantly affect the market price and marketability of our shares and may materially adversely affect our ability to raise capital through equity financings. These factors include: price and volume fluctuations in the stock markets generally which create highly variable and unpredictable pricing of equity securities; significant volatility in the market price and trading volume of securities of companies in the sectors in which our businesses operate, which may not be related to the operating performance of these companies and which may not reflect the performance of our businesses; changes and variations in our earnings and cash flows; any shortfall in revenue or net income or any increase in losses from levels expected by securities analysts; changes in regulation or tax law; operating performance of companies comparable to us; general economic trends and other external factors including inflation, interest rates, and costs and availability of raw materials, fuel and transportation; and loss of a major funding source.

All of our shares sold in this offering will be freely transferable by persons other than our affiliates and those persons subject to lock-up agreements, without restriction or further registration under the Securities Act.

FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, and elsewhere contains forward-looking statements. We may, in some cases, use words such as project, predict, believe, anticipate, plan, expect, esti intend, should, would, could, potentially, or may or other words that, convey uncertainty of future events or o to identify these forward-looking statements. Forward-looking statements in this prospectus 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 current 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 after the closing of this offering and our ability to make distributions in the future to our shareholders;
- our ability to pay the management fee, profit allocation and put price 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 current businesses;

our and our manager s ability to retain or replace qualified employees of our current 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 current 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 and elsewhere in this prospectus. 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 prospectus may not occur. These forward-looking statements are made as of the date of this prospectus. We undertake no obligation to publicly update or revise any forward-looking statements after the completion of this offering, whether as a result of new information, future events or otherwise, except as required by law.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of 8,000,000 shares in this offering will be approximately $129.2 million (or approximately $148.6 million if the underwriters overallotment option is exercised in full), based on an assumed public offering price of $17.00 per share and after deducting underwriting discounts and commissions of approximately $6.8 million (or approximately $7.8 million if the underwriters overallotment option is exercised in full), but without giving effect to the payment of public offering costs of approximately $2.2 million. In addition, CGI has agreed to purchase in a separate private placement transaction to close in conjunction with the closing of this offering a number of shares in the trust having an aggregate purchase price of approximately $30 million at a per share price equal to the public offering price. We intend to use approximately $92.8 million of the net proceeds from this offering and from the separate private placement transaction to repay borrowings under our revolving credit facility and any remaining amounts for general corporate purposes, including to fund acquisitions, if and when identified and consummated. Our revolving credit facility has been used to provide funding for our acquisitions and loans to our businesses. Our revolving credit facility permits borrowings up to $255 million with an option to increase the facility by $45 million. The revolving credit facility allows for loans at either base rate or LIBOR. Base rate loans bear interest at a fluctuating rate per annum equal to the greater of (i) the prime rate of interest published by *The Wall Street Journal* and (ii) the sum of the Federal Funds Rate plus 0.5% for the relevant period, plus a margin ranging from 1.50% to 2.50% based upon the company s ratio of total debt to adjusted consolidated earnings before interest expense, tax expense, and depreciation and amortization expenses for such period (the total debt to EBITDA ratio). LIBOR loans bear interest at a fluctuating rate per annum equal to the London Interbank Offer Rate, or LIBOR, for the relevant period plus a margin ranging from 2.50% to 3.50% based on the company s total debt to EBITDA ratio. As of April 19, 2007, there was an aggregate of $2.8 million of base rate loans and $90.0 million of LIBOR loans outstanding under the revolving credit facility. As of April 19, 2007 the interest rate for base rate loans was 10.25% and the interest rate for LIBOR loans was 8.35%. Outstanding indebtedness under the revolving credit facility will mature on November 21, 2011. We are required to pay commitment fees ranging between 0.75% and 1.25% per annum on the unused portion of the revolving credit facility.

PRICE RANGE OF SHARES

Our shares trade on the NASDAQ Global Select Market under the symbol CODI. On April 19, 2007, the last reported sale price of our shares on the NASDAQ Global Select Market was $16.45 per share. The following table sets forth, for the periods indicated, the high and low closing prices of the shares as reported on the NASDAQ Global Select Market.

	High	Low
2006:		
Second Quarter (from May 16, 2006)	$ 15.10	$ 14.27
Third Quarter	15.36	13.45
Fourth Quarter	17.67	15.70
2007:		
First Quarter	$ 18.32	$ 16.77
Second Quarter (through April 19, 2007)	$ 17.27	$ 16.28

As of March 31, 2007 we had 20,450,000 of our shares outstanding that were held by fewer than ten holders of record; however, we believe the number of beneficial owners of our shares is approximately 5,500.

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DIVIDEND AND DISTRIBUTION POLICY

The company s board of directors intends to declare and pay regular quarterly cash distributions on all outstanding shares. On July 18, 2006, the trust paid a pro rata distribution of $0.1327 per share to holders of record on July 11, 2006 for the quarter ended June 30, 2006. On October 19, 2006, the trust paid a distribution of $0.2625 to holders of record as of October 13, 2006 for the quarter ended September 30, 2006. On January 24, 2007, the trust paid a distribution of $0.30 to holders of record as of January 18, 2007 for the quarter ended December 31, 2006. The company s board of directors intends to set each distribution on the basis of the current results of operations of our businesses and other resources available to the company, including the third party credit facility, and the desire to provide sustainable levels of distributions to our shareholders.

Our distribution policy is based on the predictable and stable cash flows of our businesses and our intention to provide sustainable levels of distributions to our shareholders while reinvesting a portion of our cash flows in our businesses or in the acquisition of new businesses. If we successfully implement our strategy, we expect to maintain and increase the level of our distributions to shareholders in the future.

The declaration and payment of any future distribution will be subject to the approval of a majority of the company s board of directors. The board of directors will at all times include a majority of independent directors. The company s board of directors will take into account such matters as general business conditions, our financial condition, results of operations, capital requirements and any contractual, legal and regulatory restrictions on the payment of distributions by us to our shareholders or by our subsidiaries to us, and any other factors that the board of directors deems relevant. However, even in the event that the company s board of directors were to decide to declare and pay distributions, our ability to pay such distributions may be adversely impacted due to unknown liabilities, government regulations, financial covenants of the debt of the company, funds needed for acquisitions and to satisfy short- and long-term working capital needs of our businesses, or if our businesses do not generate sufficient earnings and cash flow to support the payment of such distributions. In particular, we may incur debt in the future to acquire new businesses, which debt will have substantial payment obligations, which must be satisfied before we can make distributions. These factors could affect our ability to continue to make distributions.

We may use cash flow from our businesses, the capital resources of the company, including borrowings under the company s third party credit facility, or a reduction in equity to pay a distribution. See the section entitled Material U.S. Federal Income Tax Considerations for more information about the tax treatment of distributions to our shareholders.

Restrictions on Distribution Payments

We are dependent upon the ability of our businesses to generate earnings and cash flow and to make distributions to us in the form of interest and principal payments on indebtedness and distributions on equity to enable us to, first, satisfy our financial obligations, including payments under our revolving credit facility, the management fee, profit allocation and put price, and, second, make distributions to our shareholders. There is no guarantee that we will continue to make quarterly distributions. Our ability to make quarterly distributions may be subject to certain restrictions, including:

- the operating results of our businesses which are impacted by factors outside of our control including competition, inflation and general economic conditions;

the ability of our businesses to make distributions to us, which may be subject to limitations under laws of the jurisdictions in which they are incorporated or organized;

insufficient cash to pay distributions due to increases in our general and administrative expenses, including the quarterly management fee we pay our manager, principal and interest payments on our outstanding debt, tax expenses or working capital requirements;

the obligation to pay our manager a profit allocation upon the occurrence of a trigger event;

the obligation to pay our manager the put price pursuant to the supplemental put agreement;

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- the company s board of directors election to keep a portion of the operating cash flow in the businesses or to use such funds for the acquisition of new businesses;
- restrictions on distributions under our revolving credit facility which contains financial covenants that we will have to satisfy in order to make quarterly or annual distributions;
- any dividends or distributions paid by our businesses pro rata to the minority shareholders of our businesses, which portion will not be available to us for any purpose, including for the purpose of making distributions to our shareholders;
- possible future issuances of debt or debt-like financing arrangements that are secured by all or substantially all of our assets, or issuing debt or equity securities, which could include issuances of commercial paper, medium-term notes, senior notes, subordinated notes or preferred securities, which obligations will have priority over distributions on the shares; and
- in the future, the company may issue preferred securities and holders of such preferred securities may have a preference with respect to distributions, which could limit our ability to make distributions to our shareholders.

As a consequence of these various restrictions, we may not be able to declare, or may have to delay or cancel payment of, distributions to our shareholders.

Because the company s board of directors intends to continue to declare and pay regular quarterly cash distributions on all outstanding shares, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations. We expect that we will rely upon external financing sources, including issuances of debt or debt-like financing arrangements and the issuance of debt and equity securities, to fund our acquisitions and expansion of capital expenditures. As a result, to the extent we are unable to finance growth externally, our decision to declare and pay regular quarterly distributions will significantly impair our ability to grow.

Our decision to incur debt and issue securities in future offerings will depend on market conditions and other factors beyond our control. Therefore, we cannot predict or estimate the amount, timing or nature of our future offerings and debt financings. Likewise, holders of our shares may be diluted pursuant to additional equity issuances.

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PRO FORMA CAPITALIZATION

The following table sets forth our unaudited pro forma capitalization, assuming no exercise of the underwriters overallotment option, at an assumed public offering price of $17.00 per share of the trust and the application of the estimated net proceeds of such sale (after deducting underwriting discounts and commission and our estimated offering expenses) as well as the proceeds from the separate private placement transaction. As Adjusted reflects the repayment of outstanding debt from the proceeds of the sale of Crosman, cash used and debt incurred for the acquisitions of Aeroglide and Halo and the application of the net proceeds of this offering as further described in the Pro Forma Condensed Financial Statements included within this prospectus. This table should be read in conjunction with Use of Proceeds, Pro Forma Condensed Financial Statements and our consolidated financial statements included elsewhere in this prospectus.

	As of December 31, 2006	
	Actual	**As Adjusted**
	($ in thousands)	
Cash and cash equivalents	$ 7,006	$ 85,408
Current maturities of long-term debt	$ 87,604	$ 2,604
Long-term debt, excluding current maturities		502
Total debt	$ 87,604	$ 3,106
Stockholders equity		
Trust shares, no par value; 500,000,000 authorized; 30,214,706 shares issued and outstanding as adjusted for the offering(1)		
Total stockholder s equity	$ 255,711	$ 448,614
Total capitalization	$ 343,315	$ 451,720

(1) Each trust share representing one undivided beneficial interest in the trust property.

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PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
(Unaudited)

The following unaudited pro forma condensed combined balance sheet as of December 31, 2006, gives effect to the following transactions, as if the following transactions had been completed as of December 31, 2006:

the offering and the application of proceeds from this offering and from the separate private placement transaction as further described in the section entitled Use of Proceeds ;

the sale of Crosman on January 5, 2007 and the application of the proceeds from this sale to retire third party debt and to provide partial funding for the acquisition of Aeroglide and Halo; and

the acquisition of approximately 89.0% of Aeroglide and approximately 73.6% of Halo.

The purchase price for these acquisitions are subject to adjustment. The actual amount of such adjustments, which we do not expect to be material, will depend upon the actual working capital of Aeroglide and Halo as of February 28, 2007.

The following unaudited pro forma condensed combined statements of operations for the year ended December 31, 2006, gives effect to this offering, the separate private placement transaction and the acquisition of Aeroglide and Halo as if they had occurred at the beginning of the fiscal period presented. The as reported financial information in the unaudited pro forma condensed combined balance sheet at December 31, 2006, and for the year ended December 31, 2006, for Aeroglide and Halo are derived from the audited financial statements for the year ended December 31, 2006 of each of the businesses, which are included elsewhere in this prospectus. The as reported financial information for the trust at December 31, 2006 and for the year ended December 31, 2006, is derived from the audited financial statements of the trust as of December 31, 2006 and for the year ended December 31, 2006 and is included in this prospectus.

The following unaudited pro forma condensed combined financial statements, or the pro forma financial statements, have been prepared assuming that our acquisition of the Aeroglide and Halo businesses will be accounted for under the purchase method of accounting. Under the purchase method of accounting, the assets acquired and the liabilities assumed will be recorded at their respective fair value at the date of acquisition. The total purchase price has been allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values, which are subject to revision if the finalization of the respective fair values results in a material difference to the preliminary estimate used.

The unaudited pro forma condensed combined statement of operations includes the results of operations for Aeroglide and Halo as if they were purchased on January 1, 2006 and the actual historical results of operations of our other businesses as of the date of acquisition, which was May 16, 2006 for our initial businesses and August 1, 2006 for Anodyne. As such these pro forma financial statements are not necessarily indicative of operating results that would have been achieved had the transactions described above been completed at the beginning of the period presented and should not be construed as indicative of future operating results.

You should read these unaudited pro forma condensed financial statements in conjunction with the financial statements and accompanying footnotes of Aeroglide and Halo included in this prospectus and the consolidated financial statements for the trust and the company, including the notes thereto.

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Compass Diversified Trust

Condensed Combined Pro Forma Balance Sheet
at December 31, 2006

	Compass Diversified Trust (as reported)	Offering*	Aeroglide (as reported)	Halo (as reported)	Pro Forma Adjustments	Pro Forma Combined Compass Diversified Trust
			(Unaudited) ($ in thousands)			
Assets						
Current assets:						
Cash and cash equivalents	$ 7,006	$ 157,000	$ 4,539	$ 339	$ (83,476)(1)	$ 85,408
Accounts receivable, net	74,899		11,340	22,769		109,008
Inventories	4,756		2,380	3,127		10,263
Prepaid expenses and other current assets	7,059		324	2,838		10,221
Current assets of discontinued operations	46,636				(46,636)(2)	
Total current assets	140,356	157,000	18,583	29,073	(130,112)	214,900
Property and equipment, net	10,858		4,443	959	3,471(3)	19,731
Goodwill	159,151		7,812	7,388	44,137(4)	218,488
Intangible assets, net	128,890				57,720(5)	186,610
Deferred debt issuance costs	5,190					5,190
Other non-current assets	15,894		1,478	1,220	(2,698)(6)	15,894
Assets of discontinued operations	65,258				(65,258)(7)	
Total assets	$ 525,597	$ 157,000	$ 32,316	$ 38,640	$ (92,740)	$ 660,813
Liabilities and stockholders equity						
Current liabilities:						
Accounts payable and accrued expenses	$ 52,900	$	$ 17,754	$ 18,204	$	$ 88,858
Deferred income taxes				516	(516)(8)	
Due to related party	469					469
Current portion of debt	87,604		1,324	1,096	(87,420)(9)	2,604
	7,880					7,880

Current portion of supplemental put obligation						
Current liabilities of discontinued operations	14,019				(14,019)(10)	
Total current liabilities	162,872		19,078	19,816	(101,955)	99,811
Long-term debt			4,058	8,205	(11,761)(11)	502
Supplemental put obligation	14,576					14,576
Long-term deferred income taxes	41,337		71	170	13,586(12)	55,164
Non-current liabilities of discontinued operations	6,634				(6,634)(13)	
Other non-current liabilities	17,336		1,703		(1,703)(14)	17,336
Total liabilities	242,755		24,910	28,191	(108,467)	187,389
Minority interest	27,131				(2,321)(15)	24,810
Total stockholders equity	255,711	157,000	7,406	10,449	18,048(16)	448,614
Total liabilities and stockholders equity	$ 525,597	$ 157,000	$ 32,316	$ 38,640	$ (92,740)	$ 660,813

* Reflects the issuance of shares and the net proceeds from this offering (after deducting underwriting discounts and commissions of $6,800 and estimated offering expenses of $2,200) and the proceeds from the separate private placement transaction.

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Compass Diversified Trust

Condensed Combined Pro Forma Statement of Operations for the year ended December 31, 2006

	Compass Diversified Trust (as reported)	Aeroglide (as reported)	Halo (as reported)	Pro Forma Adjustments	Pro Forma Combined Compass Diversified Trust
			(Unaudited) (in thousands, except per share data)		
Net sales	$ 410,873	$ 48,086	$ 115,646	$	$ 574,605
Cost of sales	311,641	27,699	71,210	370(2)	410,920
Gross profit	99,232	20,387	44,436	(370)	163,685
Operating expenses:					
Staffing expense	34,345				34,345
Selling, general and administrative expense	36,732	17,334	38,321	174(2)	92,561
Supplemental put expense	22,456				22,456
Fees to manager	4,376			2,364(5)	6,740
Research and development expense	1,806				1,806
Amortization expense	6,774			7,129(1)	13,903
Operating income (loss)	(7,257)	3,053	6,115	(10,037)	(8,126)
Other income (expense):					
Interest income	807				807
Interest expense	(6,130)	(594)	(797)	3,891(3)	(3,630)
Amortization of debt issuance costs	(779)				(779)
Loss on debt extinguishment	(8,275)				(8,275)
Other income (expense), net	541	25			566
Income (loss) from continuing operations before provision for income taxes and minority interest	(21,093)	2,484	5,318	(6,146)	(19,437)
Provision for income taxes	5,298	851	2,203	(2,387)(4)	5,965
Minority interest	1,245			430(6)	1,675
Income (loss) from continuing operations	$ (27,636)	$ 1,633	$ 3,115	$ (4,189)	$ (27,077)

Loss from continuing operations per share	$	(2.18)	$	(1.21)
Weighted average number of shares outstanding		12,686		22,451

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Notes to Pro Forma Condensed Combined Financial Statements (Unaudited)

This information in Note 1 provides all of the pro forma adjustments from each line item in the pro forma Condensed Combined Financial Statements. Note 2 describes how the adjustments were derived or calculated. Unless otherwise noted, all amounts are in thousands of dollars ($000).

Note 1. Pro Forma Adjustments

Balance Sheet:

1.	**Cash and cash equivalents**		
	Net proceeds from the sale of Crosman after partial application of proceeds to repay borrowings under the revolving credit facility	$	34,722(a)
	Revolving credit borrowing to partially fund acquisition of Aeroglide and Halo		94,500(b)
	Use of cash to fund acquisitions of Aeroglide and Halo		(118,198)(c)
	Partial use of the net proceeds from this offering and from the separate private placement transaction to repay outstanding borrowings under the revolving credit facility		(94,500)(d)
		$	(83,476)
2.	**Current assets of discontinued operations**		
	Sale of Crosman	$	(46,636)(a)
3.	**Property and equipment, net**		
	Aeroglide	$	2,553(e)
	Halo		918(f)
		$	3,471
4.	**Goodwill**		
	Aeroglide	$	20,792(e)
	Halo		23,345(f)
		$	44,137
5.	**Intangible assets, net**		
	Aeroglide	$	22,250(e)
	Halo		35,470(f)
		$	57,720
6.	**Other non-current assets**		
	Aeroglide	$	(1,478)(e)
	Halo		(1,220)(f)
		$	(2,698)

7.	**Assets of discontinued operations**		
	Sale of Crosman	$	(65,258)(a)
8.	**Deferred income taxes**		
	Halo	$	(516)(f)

9.	**Current portion of debt**	
	Sale of Crosman	$ (85,000)(a)
	Aeroglide	(1,324)(e)
	Halo	(1,096)(f)
		$ (87,420)
10.	**Current liabilities of discontinued operations**	
	Sale of Crosman	$ (14,019)(a)
11.	**Long-term debt**	
	Compass Diversified Trust	$ 94,500(b)
	Compass Diversified Trust	(94,500)(d)
	Aeroglide	(4,058)(e)
	Halo	(7,703)(f)
		$ (11,761)
12.	**Long-term deferred income taxes**	
	Aeroglide	(71)(e)
	Halo	13,657(f)
		$ 13,586
13.	**Non-current liabilities of discontinued operations**	
	Crosman sale	$ (6,634)(a)
14.	**Other non-current liabilities**	
	Aeroglide	$ (1,703)(e)
15.	**Minority interest**	
	Sale of Crosman	$ (7,422)(a)
	Aeroglide	2,350(e)
	Halo	2,751(f)
		$ (2,321)
16.	**Total stockholders equity**	
	Sale of Crosman	$ 35,903(a)
	Aeroglide	(7,406)(e)
	Halo	(10,449)(f)
		$ 18,048

Statement of Operations:

			Year Ended December 31, 2006
1.	**Amortization expense**		
	Aeroglide	$	5,006(a)(1)
	Halo		2,123(b)(1)
		$	7,129

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			Year Ended December 31, 2006
2.	**Depreciation expense**		
	Aeroglide	$	370(a)(3)
	Halo		174(b)(3)
		$	544
3.	**Interest expense**		
	Aeroglide	$	594(a)(2)
	Halo		797(b)(2)
	Compass Diversified Trust		2,500(d)
		$	3,891
4.	**Provision for income taxes**		
	Aeroglide	$	(1,817)(a)(4)
	Halo		(570)(b)(4)
		$	(2,387)
5.	**Fees to manager**		
	Compass Diversified Trust	$	2,364(c)
6.	**Minority interest**		
	Compass Diversified Trust	$	430(e)

Note 2. Pro Forma Adjustments by Business

As a further illustration, we have grouped the pro forma adjustments detailed in Note 1 to the Pro Forma Condensed Financial Statements by each business to show the combine effect of the pro forma adjustments on each business.

Balance Sheet

a. Sale of Crosman

Reflects the sale of Crosman on January 5, 2007 whereby the company received proceeds of $119,722 and applied $85,000 of such proceeds from the sale to repay revolving credit facility borrowings outstanding on the date of the sale. Partial funding for the acquisitions of Aeroglide and Halo were provided by the cash remaining after the repayment of the $85.0 million of revolving credit facility borrowings. The sale resulted in a gain of $35,903 that will be recorded in fiscal 2007.

Cash	$	34,722
Current assets of discontinued operations		(46,636)

Assets of discontinued operations	(65,258)
Current portion of debt	85,000
Current liabilities of discontinued operations	14,019
Non-current liabilities of discontinued operations	6,634
Minority interest	7,422
Equity	(35,903)
	$

b. Reflects borrowings from the revolving credit facility to partially fund the Aeroglide and Halo acquisitions:

Cash	$ 94,500
Long-term debt	(94,500)
	$

c. Reflect the use of cash for the acquisitions of Aeroglide and Halo:

Aeroglide see note e	$ (56,329)
Halo see note f	(61,869)
	$ (118,198)

d. Reflects the partial use of the net proceeds from the offering to repay revolving credit facility borrowing incurred to fund the acquisitions of Aeroglide and Halo:

Long-term debt	$ 94,500
Cash	(94,500)
	$

e. Aeroglide Acquisition

The following information represents the pro forma adjustments made by us in Note 1 to reflect our acquisition of a 89.0% equity interest in and loans to Aeroglide for a total cash investment of approximately $56.3 million. This investment of $56.3 million was assigned to assets of $76.4 million, current liabilities of $17.8 million consisting of the historical carrying values for accounts payable and accrued expenses and $2.3 million to minority interest. The asset allocation represents $18.6 million of current assets valued at their historical carrying values, property and equipment of $7.0 million valued through a preliminary asset appraisal, $22.2 million of intangible and other assets and $28.6 million of goodwill representing the excess of the purchase price over identifiable assets. The preliminary intangible asset values consist principally of customer relationships valued at $13.0 million, trade names valued at $3.4 million order backlog valued at $3.4 million, process know-how valued at $2.0 million and non-compete agreements valued at $0.4 million.

The customer relationships were valued at $13.0 million using an excess earnings methodology, in which an asset is valuable to the extent that the asset enables its owner to earn a return in excess of the required returns on and of the other assets utilized in the business. Customer relationships were analyzed separately for each of the capital equipment and aftermarket and other segments of the business, as described in the following two paragraphs.

Capital equipment customer relationships were valued at $5.0 million. The key assumptions in this analysis were an economic margin of approximately 9.0% (on average) of sales attributable to Aeroglide s capital equipment customer relationships, an estimate that sales to these capital equipment customers would be $29.6 million in 2008 prior to factoring in customer attrition, an attrition rate (reflecting the rate at which Aeroglide s capital equipment customer relationships are lost) of 20% per annum, a risk-adjusted discount rate of 19%, and a remaining useful life of 10 years.

Aftermarket and other customer relationships were valued at $8.0 million. The key assumptions in this analysis were an economic margin of approximately 17.5% (on average) of sales attributable to Aeroglide s aftermarket and other customer relationships, an estimate that sales to these aftermarket and other customers would be $12.6 million in 2008 prior to factoring in customer attrition, an attrition rate (reflecting the rate at which Aeroglide s aftermarket and other customer relationships are lost) of 10% per annum, a risk-adjusted discount rate of 19%, and a remaining useful life of 12 years.

Order backlog (representing unfulfilled customer orders for the purchase of goods or services from Aeroglide) was valued at $3.4 million using an excess earnings methodology, in which an asset is valuable to the extent that the asset enables its owner to earn a return in excess of the required returns on and of the other assets utilized in the business. Order backlog was analyzed separately for each of the capital equipment and aftermarket and other segments of the business, as described in the following two paragraphs.

Capital equipment order backlog was valued at $2.6 million. The key assumptions in this analysis were an economic margin of 12.4%, order backlog sales of $19.0 million to be fulfilled in six months, and a risk-adjusted discount rate of 18%.

Aftermarket and other order backlog was valued at $0.8 million. The key assumptions in this analysis were an economic margin of 21.3%, order backlog sales of $3.2 million to be fulfilled in three months, and a risk-adjusted discount rate of 18%.

The trade names were valued at $3.4 million using a royalty savings methodology, in which an asset is valuable to the extent that ownership of the asset relieves the company from the obligation of paying royalties for the benefits generated by the asset. The key assumptions in this analysis were a royalty rate equal to 1% of sales, a royalty sales base equal to 100% of Aeroglide s total sales, a risk-adjusted discount rate of 19%, and an indefinite remaining useful life.

The process know-how (representing Aeroglide s institutional knowledge and collective technical expertise regarding various industrial applications of process driers and coolers) was valued at $2.0 million using a royalty savings methodology, in which an asset is valuable to the extent that ownership of the asset relieves the company from the obligation of paying royalties for the benefits generated by the asset. The key assumptions in this analysis were a royalty rate equal to 1% of sales, an initial royalty sales base equal to 100% of Aeroglide s total sales, an obsolescence factor (reflecting the rate at which the utility of the core technology degrades relative to time) of 5% per annum, a risk-adjusted discount rate of 19%, and a remaining useful life of 13 years.

The non-competition agreements were valued in aggregate (for 10 Aeroglide executives) at $0.45 million using a lost profits methodology, in which such agreements are valuable to the extent that the company avoids suffering a reduction in cash flow by virtue of the protection afforded by the agreements. The key assumptions in this analysis were an estimated loss of 5% of annual revenues during a hypothetical two-year period of competition from the subject executives, a 20% probability each year the subject executives would compete in the absence of the agreements, a risk-adjusted discount rate of 19%, and a remaining useful life of two years.

The value assigned to minority interest was derived from the equity value contributed by the minority holders at the time of acquisition.

1. Reflects (1) purchase accounting adjustments to reflect Aeroglide s assets acquired and liabilities assumed at their estimated fair values, (2) redemption of existing debt of Aeroglide and (3) elimination of historical shareholders equity:

Property and equipment	$ 2,553
Goodwill	20,792
Intangible assets	22,250
Other assets	(1,478)
Current portion of long-term debt	1,324
Long-term debt	4,058
Deferred tax liability	71
Other liabilities	1,703
Establishment of minority interest	(2,350)

Elimination of historical shareholders equity	7,406
Cash used to fund acquisition	$ 56,329

f. Halo Acquisition

The following information represents the pro forma adjustments made by us in Note 1 to reflect our acquisition of a 73.6% equity interest in, and loans to Halo for a total cash investment of approximately

$61.9 million. This investment of $61.9 million was assigned to assets of $98.0 million, current liabilities of $19.5 million consisting of the historical carrying values for accounts payable and accrued expenses, $13.8 million to deferred tax liabilities and $2.8 million to minority interest. The asset allocation represents $29.1 million of current assets valued at their historical carrying values, property and equipment of $1.9 million valued through a preliminary asset appraisal, $35.5 million of intangible and other assets and $31.5 million of goodwill representing the excess of the purchase price over identifiable assets. The preliminary intangible asset values consist principally of the customer relationships and order processing network valued at $30.0 million, trade names valued at $5.1 million and non-compete covenants valued at $0.4 million.

The customer relationships and order processing network were valued at $30.0 million using an excess earnings methodology, in which an asset is valuable to the extent that the asset enables its owner to earn a return in excess of the required returns on and of the other assets utilized in the business. The key assumptions in this analysis were an economic margin of approximately 3.5% (on average) of sales attributable to Halo s account executive relationships, an estimate that sales attributable to these account executive relationships would be $131.8 million in 2008 prior to factoring in attrition, an attrition rate (reflecting the rate at which Halo s account executive relationships are lost) of 5% per annum, a risk-adjusted discount rate of 15%, and a remaining useful life of 15 years.

The trade names were valued at $5.1 million using a royalty savings methodology, in which an asset is valuable to the extent that ownership of the asset relieves the company from the obligation of paying royalties for the benefits generated by the asset. The key assumptions in this analysis were a royalty rate equal to 0.5% of sales, a royalty sales base equal to 100% of Halo s total sales, a risk-adjusted discount rate of 15%, and an indefinite remaining useful life.

The non-competition agreements were valued in aggregate (for two Halo executives) at $0.37 million using a lost profits methodology, in which such agreements are valuable to the extent that the company avoids suffering a reduction in cash flow by virtue of the protection afforded by the agreements. The key assumptions in this analysis were an estimated loss of 5% of annual revenues during a hypothetical two-year period of competition from the subject executives, a 5% probability each year the subject executives would compete in the absence of the agreements, a risk-adjusted discount rate of 15%, and a remaining useful life of three years.

The value assigned to minority interest was derived from the equity value contributed by the minority holders at the time of acquisition.

1. Reflects (1) purchase accounting adjustments to reflect Halo s assets acquired and liabilities assumed at their estimated fair values, (2) redemption of existing debt of Halo and (3) elimination of historical shareholders equity:

Property and equipment	$ 918
Goodwill	23,345
Intangible assets	35,470
Other assets	(1,220)
Deferred income taxes	516
Current portion of long-term debt	1,096
Long-term debt	7,703
Long-term deferred income taxes	(13,657)
Establishment of minority interest	(2,751)
Elimination of historical shareholders equity	10,449
Cash used to fund acquisition	$ 61,869

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Statement of Operations:

			Year Ended December 31, 2006
A.		The following entries represent the pro forma adjustments made by us in Note 1 to reflect the effect of our acquisition of Aeroglide upon the results of their operations for the year ended December 31, 2006 as if we had acquired Aeroglide at the beginning of the fiscal year presented:	
	1.	Additional amortization expense of intangible assets resulting from the acquisition of Aeroglide:	
		Customer relationship capital equipment of $5,000 which will be amortized over 10 years	$ 500
		Customer relationship after market of $8,000 which will be amortized over 11 years	727
		Order backlog of $3,400 which will be amortized over less than 1 year	3,400
		Process know-how of $2,000 which will be amortized over 13 years	154
		Non-compete covenants of $450 which will be amortized over 2 years	225
		Total	$ 5,006
	2.	Reduction of interest expense with respect to the $5,382 of debt redeemed in connection with the acquisition of Aeroglide	$ (594)
	3.	Additional depreciation expense resulting from the acquisition of Aeroglide	$ 370
	4.	Tax impact of adjustments 1 to 3 above	$ (1,817)
B.		The following entries represent the pro forma adjustments made by us in Note 1 to reflect the effect of our acquisition of Halo upon the results of their operations for the year ended December 31, 2006 as if we had acquired Halo at the beginning of the fiscal year presented:	
	1.	Additional amortization expense of intangible assets resulting from the acquisition of Halo:	
		Customer relationships and order processing network of $30,000 which will amortized over 15 years	$ 2,000
		Non-compete agreement of $370 which will be amortized over 3 years	123
		Total	$ 2,123
	2.	Reduction of interest expense with respect to $8,799 of debt redeemed in connection with acquisition of Halo	$ (797)
	3.	Additional depreciation expense resulting from the acquisition of Halo	$ 174
	4.	Tax impact of adjustments 1 to 3 above	$ (570)

C. Adjustment to record the additional estimated management fee expense pursuant to the Management Services Agreement to be incurred in connection with the acquisition of Aeroglide and Halo.

Net purchase price of Aeroglide	$	56,329
Net purchase price of Halo		61,869
Additional net assets		118,198
Management fee %		2.0%
	$	2,364

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			Year Ended December 31, 2006
D.	Adjustment to reduce interest expense with the assumption that the $50.0 million of unapplied proceeds from the offering that would have reduced outstanding third party debt borrowings. The amount was calculated as follows:		
	Interest expense on $50.0 million at an average rate of 9.5% since May 16, 2006	$	(2,968)
	Additional unused fee on revolving loan commitment		468
		$	(2,500)
E.	Adjustment to record the minority interest in net income. The adjustment for minority interest was calculated by applying the minority ownership percentage for Aeroglide and Halo to the net income applicable to the minority interest holders	$	430

Note 3. Pro Forma loss from continuing operations per share

Pro forma loss from continuing operations per share is $(1.21) for the year ended December 31, 2006, reflecting the shares issued from this offering as if such shares were outstanding from the beginning of the respective period and was calculated as follows:

Net loss	$	(27,077)(a)
Pro forma weighted average number of shares outstanding:		
Actual weighted average outstanding for 2006		12,686
Shares from this offering and from the separate private placement(1)		9,765
		22,451(b)
Pro forma net loss from continuing operations per share (a divided by b)	$	(1.21)

(1) Pro forma weighted average number of shares outstanding was derived by dividing the estimated gross proceeds from the offering and the separate private placement transaction by the assumed price per share of $17.00.

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SELECTED FINANCIAL DATA

The following table sets forth selected historical and other data of the company and should be read in conjunction with the more detailed consolidated financial statements included elsewhere in this prospectus. On January 5, 2007, we executed a purchase and sale agreement to sell our majority-owned subsidiary, Crosman, for approximately $143 million in cash. As a result, the operating results of Crosman for the period of its acquisition by us (May 16, 2006) through December 31, 2006 are being reported as discontinued operations in accordance with SFAS 144, and as such are not included in the data below. We will recognize a gain of approximately $35.9 million from the sale of Crosman in fiscal year 2007.

Selected financial data below includes the results of operations, cash flow and balance sheet data of the company for the years ended December 31, 2005 and 2006. We were incorporated on November 18, 2005. Financial data included for the year ended December 31, 2005, therefore only includes the minimal activity experienced from inception to December 31, 2005.

We completed the IPO on May 16, 2006 and used the proceeds of the IPO, separate private placement transactions that closed in conjunction with the IPO and from our third party credit facility to purchase controlling interests in four businesses. On August 1, 2006, we purchased a controlling interest in an additional business, Anodyne. Financial data included below therefore only includes activity in our businesses from May 16, 2006 through December 31, 2006, and in the case of Anodyne, from August 1, 2006 through December 31, 2006.

Because we completed the purchase of Aeroglide and Halo in February 2007, financial data is not presented for these businesses.

	Fiscal Year Ended December 31,	
	2006	2005
	($ in thousands, except per share data)	
Statements of Operations Data:		
Net sales	$ 410,873	$
Cost of sales	311,641	
Gross profit	99,232	
Operating expenses:		
Staffing	34,345	
Selling, general and administrative	36,732	1
Management fee	4,376	
Supplemental put expense	22,456	
Research and development expense	1,806	
Amortization expense	6,774	
Operating loss	$ (7,257)	$ (1)
Loss from continuing operations	$ (27,636)	$ (1)
Income from discontinued operations, net of income tax	$ 8,387	$

Net loss	$	(19,249)	$	(1)
Cash Flow Data:				
Cash provided by operating activities	$	20,563	$	
Cash (used in) investing activities		(362,286)		
Cash provided by financing activities		351,073		100
Net increase in cash	$	9,350	$	100
Per Share Data:				
Basic and fully diluted loss from continuing operations per share	$	(2.18)	$	
Basic and fully diluted loss per share	$	(1.52)	$	

	At December 31,	
	2006	**2005**
	($ in thousands)	
Balance Sheet Data:		
Total current assets	$ 140,356	$ 3,408
Total assets	525,597	3,408
Current liabilities	162,872	3,309
Long-term debt		
Total liabilities	242,755	3,309
Minority interests	27,131	100
Shareholders equity (deficit)	255,711	(1)

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management s discussion and analysis of financial condition and results of operations contains forward-looking statements. Forward-looking statements in this prospectus are subject to a number of risks and uncertainties, some of which are beyond our control. Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ, including those discussed in the sections entitled Forward-Looking Statements and Risk Factors.

Overview

Compass Diversified Trust, a Delaware statutory trust, was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability company, was also formed on November 18, 2005. In accordance with the amended and restated trust agreement, dated as of April 25, 2006, which we refer to as the trust agreement, the trust is sole owner of 100% of the trust interests (as defined in the LLC agreement) of the company and, pursuant to the LLC agreement, the company has outstanding, the identical number of trust interests as the number of outstanding shares of the trust. Our manager is the sole owner of the allocation interests of the company. The company is the operating entity with a board of directors and other corporate governance responsibilities, similar to that of a Delaware corporation.

We acquire and manage middle market businesses based in North America with annual cash flows between $5 million and $40 million. We seek to acquire controlling ownership interests in the businesses in order to maximize our ability to work actively with the management teams of those businesses. Our model for creating shareholder value is to be disciplined in identifying and valuing businesses, to work closely with management of the businesses we acquire to grow the cash flows of those businesses, and to exit opportunistically businesses when we believe that doing so will maximize returns. We currently own six businesses in six distinct industries and we believe that these businesses will continue to produce stable and growing cash flows over the long term, enabling us to meet our objectives of growing distributions to our shareholders, independent of any incremental acquisitions we may make, and investing in the long-term growth of the company.

In identifying acquisition candidates, we target businesses that:

- produce stable cash flows;
- have strong management teams largely in place;
- maintain defensible positions in industries with forecasted long-term macroeconomic growth; and
- face minimal threat of technological or competitive obsolescence.

We maintain a long-term ownership outlook which we believe provides us the opportunity to develop more comprehensive strategies for the growth of our businesses through various market cycles, and will decrease the possibility, often faced by private equity firms or other financial investors, that our businesses will be sold at unfavorable points in a market cycle. Furthermore, we provide the financing for both the debt and equity in our acquisitions, which allows us to pursue growth investments, such as add-on acquisitions, that might otherwise be restricted by the requirements of a third-party lender. We have also found sellers to be attracted to our ability to provide both debt and equity financing for the consummation of acquisitions, enhancing the prospect of confidentiality and certainty of consummating these transactions. In addition, we believe that our ability to be long-term owners alleviates the concern that many private company owners have with regard to their businesses going through multiple sale processes in a short period of time and the disruption that this may create for their employees or customers.

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Our management team s strategy for our subsidiaries involves:

utilizing structured incentive compensation programs tailored to each business to attract, recruit and retain talented managers to operate our businesses;

regularly monitoring financial and operational performance, instilling consistent financial discipline, and supporting management in the development and implementation of information systems to effectively achieve these goals;

assisting management in their analysis and pursuit of prudent organic cash flow growth strategies (both revenue and cost related);

identifying and working with management to execute attractive external growth and acquisition opportunities; and

forming strong subsidiary level boards of directors to supplement management in their development and implementation of strategic goals and objectives.

Based on the experience of our management team and its ability to identify and negotiate acquisitions, we believe we are positioned to acquire additional attractive businesses. Our management team has a large network of over 2,000 deal intermediaries to whom it actively markets and who we expect to expose us to potential acquisitions. Through this network, as well as our management team s active proprietary transaction sourcing efforts, we typically have a substantial pipeline of potential acquisition targets. In consummating transactions, our management team has, in the past, been able to successfully navigate complex situations surrounding acquisitions, including corporate spin-offs, transitions of family-owned businesses, management buy-outs and reorganizations. We believe the flexibility, creativity, experience and expertise of our management team in structuring transactions provides us with a strategic advantage by allowing us to consider non-traditional and complex transactions tailored to fit a specific acquisition target.

In addition, because we intend to fund acquisitions through the utilization of our revolving credit facility, we do not expect to be subject to delays in or conditions by closing acquisitions that would be typically associated with transaction specific financing, as is typically the case in such acquisitions. We believe this advantage is a powerful one and is highly unusual in the marketplace for acquisitions in which we operate.

Initial Public Offering and Initial Acquisitions

On May 16, 2006, we completed the IPO of 13,500,000 shares of the trust at an offering price of $15.00 per share. Total net proceeds from the IPO, after deducting the underwriters discounts, commissions and financial advisory fee, were approximately $188.3 million. On May 16, 2006, we also completed the private placement of 5,733,333 shares to CGI at the IPO price per share for approximately $86.0 million and completed the private placement of 266,667 shares at the IPO price per share per share to Pharos, an entity controlled by Mr. Massoud, the chief executive officer of the company, and owned by our management team, for approximately $4.0 million. CGI also purchased 666,667 shares for $10.0 million through the IPO.

On May 16, 2006, we also entered into a financing agreement, which we refer to as the prior financing agreement, which was a $225 million secured credit facility with Ableco Finance LLC, as collateral and administrative agent. On November 22, 2006, we terminated the prior financing agreement and entered into a new $255 million revolving credit facility, which we refer to as the revolving credit facility, with Madison Capital Funding, LLC, which we refer to as Madison, as agent.

We used the net proceeds of the IPO, the separate private placements that closed in conjunction with the IPO, and initial borrowings under our prior financing agreement to make loans to and acquire controlling interests in each of the following businesses from certain subsidiaries of CGI and from certain minority owners of each business, which include:

a loan was made to and a controlling interest in CBS Personnel was purchased totaling $127.8 million. Our controlling interest represented at the time of purchase approximately 97.6% of the outstanding stock of CBS Personnel on a primary basis and approximately 94.4% on a fully diluted basis, after giving effect to the exercise of vested and in-the-money options and vested non-contingent warrants;

a loan was made to and a controlling interest in Crosman was purchased totaling $72.6 million. Our controlling interest represented approximately 75.4% of the outstanding stock of Crosman on a primary basis and 73.8% on a fully diluted basis;

a loan was made to and a controlling interest in Advanced Circuits was purchased for approximately $81.0 million. Our controlling interest represented approximately 70.2% of the outstanding stock of Advanced Circuits on a primary and fully diluted basis; and

a loan was made to and a controlling interest in Silvue was purchased for approximately $37.5 million. Our controlling interest represented approximately 73.0% of the outstanding stock of Silvue on a primary and fully diluted basis.

At the close of the acquisitions of the initial businesses, the company s board of directors engaged our manager to externally manage the day-to-day operations and affairs of the company, oversee the management and operations of the businesses and to perform those services customarily performed by executive officers of a public company.

We are dependent upon the earnings of and cash distributions from, the businesses that we own to meet our corporate overhead and management fee expenses and to pay distributions. These earnings, net of any minority interests in these businesses, will be available:

first, to meet capital expenditure requirements, management fees and corporate overhead expenses;

second, to fund distributions from the businesses to the company; and

third, to be distributed by the trust to shareholders.

Anodyne Acquisition

On August 1, 2006, we acquired approximately 47.3% of the outstanding capital stock, on a fully diluted basis, of Anodyne which represents approximately 69.8% of the voting power of all Anodyne stock from CGI and Compass Medical Mattresses Partners, LP, a wholly owned, indirect subsidiary of CGI.

The purchase price aggregated $31.1 million for the Anodyne stock, all outstanding debt to the seller under Anodyne s credit facility, which we refer to as original loans, and a promissory note issued by a borrower controlled by Anodyne s chief executive officer totaling $5.2 million, which we refer to as the promissory note, which purchase price was paid by the company in the form of $17.3 million in cash and 950,000 of our newly issued shares. The shares were valued at $13.1 million, or $13.77 per share. Transaction expenses were approximately $700,000. The cash consideration was funded through available cash and a drawing on our prior financing agreement of approximately $18.0 million.

On October 5, 2006 Anodyne acquired Anatomic Concepts, Inc., which we refer to as Anatomic. The cash purchase price was approximately $8.6 million all of which was funded by loans from the company. In addition, costs totaling

$0.5 million were accrued in connection with the acquisition. Anatomic designs, manufactures and distributes medical support surfaces and medical patient positioning devices, including mattresses, mattress overlays and replacements, operating room patient positioning devices, operating table pads and related accessories. Anatomic is located in Corona, California.

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Recent Developments

Crosman Disposition

On January 5, 2007, we sold all of our interest in Crosman, an operating segment, for approximately $143 million. Closing and other transaction costs totaled approximately $2.4 million. Our share of the proceeds, after accounting for the redemption of Crosman s minority holders and the payment of CGM s profit allocation of $7.9 million was approximately $110 million. We will recognize a gain on the sale of approximately $35.9 million in fiscal 2007. We used $85.0 million of the net proceeds to repay amounts outstanding under the company s revolving credit facility. The remaining net proceeds were invested in short-term investment securities pending future application. We did not pay a corresponding distribution of any of the proceeds from this sale.

Our consolidated financial statements reflect the activity of Crosman, as a discontinued operation in accordance with SFAS No. 144, *Accounting for the impairment or disposal of long-lived assets.*

The following table presents Crosman s results of operations from May 16, 2006 through December 31, 2006 reflected in our consolidated financial statements as discontinued operations:

		($ in thousands)
Net sales	$	72,316
Costs and expenses		59,039
Income from discontinued operations		13,277
Other income, net		182
Income from discontinued operations before taxes		13,459
Provision for taxes		3,367
Minority interests		1,705
Net income from discontinued operations(1)	$	8,387

(1) This amount does not include intercompany interest expense incurred totaling approximately $3.2 million.

Aeroglide Acquisition

On February 28, 2007, we purchased a controlling interest in Aeroglide Corporation which we refer to as Aeroglide. Aeroglide is a leading global designer and manufacturer of industrial drying and cooling equipment. Aeroglide provides specialized thermal processing equipment designed to remove moisture and heat as well as roast, toast and bake a variety of processed products. Its machinery includes conveyer driers and coolers, impingement driers, drum driers, rotary driers, toasters, spin cookers and coolers, truck and tray driers and related auxiliary equipment and is used in the production of a variety of human foods, animal and pet feeds and industrial products. Aeroglide utilizes an extensive engineering department to custom engineer each machine for a particular application. Aeroglide had sales of approximately $48 million for the year ended December 31, 2006.

On February 28, 2007, we made loans to and purchased a controlling interest in Aeroglide totaling $57 million. Our controlling interest represents approximately 89% of the outstanding stock. The cash consideration was funded through available cash and a drawing on our revolving credit facility.

Halo Acquisition

On February 28, 2007, we purchased a controlling interest in Halo Branded Solutions, Inc. which we refer to as Halo, and which operates under the brand names of Halo and Lee Wayne. Halo serves as a one-stop shop for over 30,000 customers providing design, sourcing, management and fulfillment services across all categories of its customers promotional product needs. Halo has established itself as a leader in the promotional products and marketing industry through its focus on service through its approximately 700 account executives. Halo had sales of approximately $116 million for the year ended December 31, 2006.

On February 28, 2007, we made loans to and purchased a controlling interest in Halo totaling $61 million. Our controlling interest represents approximately 73.6% of the outstanding equity. The cash consideration was funded through available cash and a drawing on our revolving credit facility.

We expect that both businesses will be accretive to cash flow available for distribution in fiscal 2007 and beyond.

Results of Operations

We were formed on November 18, 2005 and acquired our initial businesses on May 16, 2006 and Anodyne on August 1, 2006, and, therefore cannot provide a comparison of our consolidated results of operations for the year ended December 31, 2006 with any prior year. In the following results of operations, we provide (i) our consolidated results of operations for the years ended December 31, 2006 and 2005, which includes the results of operations of our businesses (segments) as of May 16, 2006 and the results of operations of Anodyne from August 1, 2006, (ii) comparative and unconsolidated results of operations for each of the initial businesses, on a stand-alone basis, for years ended December 31, 2006 and 2005, and (iii) unconsolidated results of operations for Anodyne from August 1, 2006. Anodyne was formed in 2005, began business operations in February 2006 and was acquired by us on August 1, 2006. As a result, comparative results of operations are not available.

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

	Years Ended December 31, 2006	2005
	($ in thousands)	
Net sales	$ 410,873	$
Cost of sales	311,641	
Gross profit	99,232	
Selling, general and administrative expense	71,077	1
Fees to manager	4,376	
Supplemental put cost	22,456	
Amortization of intangibles	6,774	
Research and development expense	1,806	
Operating loss	$ (7,257)	$ (1)

We do not generate any revenues apart from those generated by the businesses we own, control or operate. We may generate interest income on the investment of available funds, but expect such earnings to be minimal. Our investment in our businesses is typically in the form of loans from the company to such businesses, as well as equity interests in those companies. Cash flows coming to the trust and the company are the result of interest payments on those loans, amortization of those loans and, in the future, potentially, dividends on our equity ownership. However, on a consolidated basis these items will be eliminated.

Pursuant to the management services agreement, we pay our manager a quarterly management fee equal to 0.5% (2.0% annualized) of our adjusted net assets as of the last day of each fiscal quarter. (See Related Party Transactions). We accrue for the management fee on a quarterly basis. For the year ended December 31, 2006 we incurred approximately $4.4 million in expense for these fees.

In addition, concurrent with the IPO, we entered into a supplemental put agreement with our manager pursuant to which our manager has the right to cause us to purchase the allocation interests then owned by it upon termination of the management services agreement. The company accrued approximately $22.5 million in non-cash expense during the year ended December 31, 2006 in connection with this agreement. This expense represents that portion of the estimated increase in the value of our original businesses over our basis in those businesses that our manager is entitled to if the management services agreement were terminated or those businesses were sold (see Related Party Transactions).

We acquired our initial businesses on May 16, 2006. As a result, our consolidated operating results only include the results of operations for the 230 day period between May 16, 2006 and December 31, 2006. The following reflects a comparison of the historical results of operations for each of our initial businesses for the entire twelve-month period ending December 31, 2006, which we believe is a more meaningful comparison in explaining the historical financial performance of the business. These results of operations do not reflect any purchase accounting adjustments from our acquisition and are not necessarily indicative of the results to be expected for the full year going forward.

Advanced Circuits

Overview

Advanced Circuits is a provider of prototype, quick-turn and volume production PCBs to customers throughout the United States. Collectively, prototype and quick-turn PCBs represent 65.5% of Advanced Circuits gross revenues. Prototype and quick-turn PCBs typically command higher margins than volume production given that customers require high levels of responsiveness, technical support and timely delivery with respect to prototype and quick-turn PCBs and are willing to pay a premium for them. Advanced Circuits is able to meet its customers demands by manufacturing custom PCBs in as little as 24 hours, while maintaining over 98.0% error-free production rate and real-time customer service and product tracking 24 hours per day.

While global demand for PCBs has remained strong in recent years, industry wide domestic production has declined by approximately 60% since 2000. In contrast, Advanced Circuits revenues have increased steadily as its customers prototype and quick-turn PCB requirements, such as small quantity orders and rapid turnaround, are less able to be met by low cost volume manufacturers in Asia and elsewhere. Advanced Circuits management anticipates that demand for its prototype and quick-turn printed circuit boards will remain strong.

Over the past three years, Advanced Circuits has continued to improve its internal production efficiencies and enhance its service capabilities, resulting in increased profit margins. Additionally, Advanced Circuits has benefited from increased production capacity as a result of a facility expansion that was completed in 2003.

Advanced Circuits does not depend or expect to depend upon any customer or group of customers, with no single customer accounting for more than 2% of its net sales. Advanced Circuits receives orders from over 8,000 customers and adds approximately 225 new customers per month.

In September 2005, a subsidiary of CGI acquired Advanced Circuits, Inc. along with R.J.C.S. LLC, an entity previously established solely to hold Advanced Circuits real estate and equipment assets. Immediately following the acquisitions, R.J.C.S. LLC was merged into Advanced Circuits, Inc. The results for the year ended December 31, 2005, reflects the combined results of the two businesses. The following section discusses the historical financial performance of the combined entities.

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Results of Operations

Fiscal Year Ended December 31, 2006 Compared to Fiscal Year Ended December 31, 2005

The table below summarizes the combined statement of operations for Advanced Circuits for the fiscal years ending December 31, 2006 and December 31, 2005.

	Fiscal Year Ended December 31,	
	2006	2005
	($ in thousands)	
Net sales	$ 48,139	$ 41,969
Cost of sales	18,888	18,102
Gross profit	29,251	23,867
Selling, general and administrative expenses	14,934	8,283
Amortization of intangibles	2,731	717
Income from operations	$ 11,586	$ 14,867

Net sales

Net sales for the year ended December 31, 2006 was approximately $48.1 million as compared to approximately $42.0 million for the year ended December 31, 2005, an increase of approximately $6.2 million or 14.7%. The increase in net sales was largely due to increased sales in quick-turn production PCB, and prototype production, which increased by approximately $2.5 million and $1.8 million, respectively, and the addition of new customers from increased marketing efforts. Quick-turn production PCBs represented approximately 32.1% of gross sales for the year ended December 31, 2006 as compared to approximately 32.0% for the fiscal year ended December 31, 2005. Prototype production represented approximately 33.4% of sales for the fiscal year ended December 31, 2006 compared to approximately 34% for the fiscal year ended December 31, 2005.

Cost of sales

Cost of sales for the year ended December 31, 2006 was approximately $18.9 million, or 39.2% of net sales, as compared to approximately $18.1 million, or 43.1% of net sales, for the year ended December 31, 2005, an increase of approximately $0.8 million or 4.3%. The increase in cost of sales was largely due to the increase in production volume offset in part by efficiencies realized from the increased capacity utilization at the Aurora Colorado facility.

Gross profit margin increased by approximately 3.9% to approximately 60.8% for the year ended December 31, 2006 as compared to approximately 56.9% for the year ended December 31, 2005. The increase is due to increased capacity utilization. These benefits were partially offset by increased costs of laminates, Advanced Circuits primary raw material component in the production of PCB s.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2006 were approximately $14.9 million, or 31.0% of net sales, as compared to approximately $8.3 million, or 19.7% of net sales, for the year ended December 31, 2005, an increase of approximately $6.7 million, or 80.3%. Approximately $3.8 million of the increase was due to loan forgiveness arrangements provided to Advanced Circuits management associated with CGI s acquisition of Advanced Circuits. Additionally, approximately $0.3 million of the increase was due to increased advertising expenditures with the remainder of the increase due to increased compensation and other professional fees due principally to the increase in sales and scope of operations.

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Amortization of intangibles

Amortization of intangibles for the year ended December 31, 2006 was approximately $2.7 million, or 5.7% of net sales, compared to approximately $0.7 million, or 1.7% of net sales, for the year ended December 31, 2005. This increase was due to the significant increase in the amortization of intangibles acquired as a result of the acquisition on September 20, 2005 and reflected for four fiscal quarters in 2006 compared to only one fiscal quarter in 2005.

Income from operations

Income from operations was approximately $11.6 million, or 24.1% of net sales, for the year ended December 31, 2006 as compared to approximately $14.9 million, or 35.4% of net sales, for the year ended December 31, 2005, a decrease of approximately $3.3 million or 22.1%. The decrease in income from operations was principally due to the non-cash costs associated with loan forgiveness compensation arrangements totaling approximately $3.8 million in fiscal 2006. We expect there to be additional such non-cash charges in the future.

CBS Personnel

Overview

CBS Personnel, a provider of temporary staffing services in the United States, provides a wide range of human resources services, including temporary staffing services, employee leasing services, permanent staffing and temporary-to-permanent placement services. CBS Personnel derives a majority of its revenues from its temporary staffing services, which generated approximately 97.2% and 97.1% of revenues for fiscal years ended December 31, 2006 and 2005, respectively. CBS Personnel serves over 4,000 corporate and small business clients and during an average week places over 24,000 temporary employees in a broad range of industries, including manufacturing, transportation, retail, distribution, warehousing, automotive supply, construction, industrial, healthcare and financial sectors.

As a result of relatively flat economic conditions, CBS Personnel s revenues increased slightly compared to fiscal 2005. As the salaries of temporary employees represent the largest costs of providing staffing services, the increase in number of temporary workers on hire has resulted in a corresponding increase in CBS Personnel s costs of revenues. Based on forecasts of continued economic growth, CBS Personnel s management believes the demand for temporary staffing services will continue to grow.

CBS Personnel s business strategy includes maximizing production in existing offices, increasing the number of offices within a market when conditions warrant, and expanding organically into contiguous markets where it can benefit from shared management and administrative expenses. CBS Personnel typically enters into new markets through acquisition. In keeping with these strategies, CBS Personnel acquired substantially all of the assets of PMC Staffing Solutions, Inc., d/b/a Strategic Edge Solutions (SES) on November 27, 2006. This acquisition gave CBS Personnel a presence in the Baltimore, Maryland area, while increasing its presence in the Chicago, Illinois area. SES revenues for the eleven months ended November 27, 2006 were approximately $31.4 million and are not included in the information below. SES derives its revenues primarily from the light industrial market. CBS Personnel continues to view acquisitions as an attractive means to enter new geographic markets.

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Fiscal Year Ended December 31, 2006 as Compared to Fiscal Year Ended December 31, 2005

The table below summarizes the consolidated statement of operations data for CBS Personnel for the fiscal years ended December 31, 2006 and December 31, 2005:

	Fiscal Year Ended December 31, 2006	Fiscal Year Ended December 31, 2005
	($ in thousands)	
Revenues	$ 551,080	$ 543,012
Direct cost of revenues	446,820	441,685
Gross profit	104,260	101,327
Staffing expense	54,847	54,249
Selling, general and administrative expenses	25,666	26,723
Amortization expense	2,687	1,902
Income from operations	$ 21,060	$ 18,453

Revenues

Revenues for the year ended December 31, 2006 increased approximately $8.1 million, or 1.5%, over the corresponding twelve months ended December 31, 2005. Revenues from light industrial staffing increased approximately $25.1 million year over year, and included approximately $2.8 million from the SES acquisition. This increase was partially offset by a $10.7 million decrease in revenues from clerical services, and a $5.0 million decrease in revenues from medical and payroll services. The remaining decrease in revenues is attributable to the remaining niche segments serviced by CBS Personnel. These decreases in revenues include approximately $7.1 million attributable to one specific customer that CBS personnel stopped providing service for in the fourth quarter of 2005, due to the customer s credit issues.

Direct cost of revenues

Direct cost of revenues for the twelve months ended December 31, 2006 were approximately $446.8 million, or 81.1% of revenues, compared to approximately $441.7 million, or 81.3% of revenues, for the year ended December 31, 2005, an increase of approximately $5.1 million, or 1.2%, principally due to those costs associated with the increase in revenues and the SES acquisition. The acquisition of SES accounted for approximately $2.7 million of the increase. The remaining increase is the result of higher revenue volume in temporary services, which was substantially offset by lower workers compensation costs. A favorable actuarial adjustment of approximately $2.5 million was recorded in 2006, reflecting CBS Personnel s initiatives to reduce workers compensation exposure and to settle claims.

Gross profit totaled approximately 18.9% and 18.7% as a percentage of revenues in each of the twelve-month periods ended December 31, 2006 and 2005, respectively. The increase in gross profit as a percent of revenues is primarily attributable to lower workers compensation costs as discussed above. This decrease in workers compensation cost was partially offset by a shift in product mix to larger accounts and light industrial accounts, which typically have lower margins.

Staffing expense

Staffing expense for the year ended December 31, 2006 was approximately $54.8 million, or 9.9% of revenues, compared to approximately $54.2 million, or 10.0% for the year ended December 31, 2005. This increase of approximately $0.6 million is principally due to cost associated with the increase in revenues and for the SES acquisition.

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Selling, general and administrative expenses

Selling, general and administrative expenses were approximately $25.7 million, or 4.7% of revenues for the year ended December 31, 2006, compared to approximately $26.7 million, or 4.9% of revenues, for the year ended December 31, 2005, a decrease of approximately $1.1 million, or 4.0%. The SES acquisition contributed to an increase of approximately $0.1 million. This increase was offset by nonrecurring costs associated with the equity recapitalization and the SES acquisition in 2006 of approximately $0.6 million compared to expenses of approximately $1.2 million associated with the reorganization of field operations in 2005 and by lower bad debt expense of approximately $0.4 million in fiscal 2006.

Amortization expense

Amortization expense increased approximately $0.8 million in the twelve months ended December 31, 2006 as a result of the recapitalization in connection with CODI s purchase of a controlling interest in CBS Personnel in May 2006. As part of the recapitalization, CBS Personnel repaid their original long-term debt, which required CBS to write off the remaining balance of deferred financing costs of $1.6 million related to that debt.

Income from operations

Income from operations increased approximately $2.6 million to $21.1 million, or 3.8% of revenues, for the year ended December 31, 2006 compared to $18.5 million, or 3.4% of revenues, for the year ended December 31, 2005 principally as a result of the factors described above.

Silvue

Overview

Silvue is a developer and producer of proprietary, high performance liquid coating systems used in the high-end eyewear, aerospace, automotive and industrial markets. Silvue s coating systems, which impart properties such as abrasion resistance, improved durability, chemical resistance, ultraviolet or UV protection, can be applied to a wide variety of materials, including plastics, such as polycarbonate and acrylic, glass, metals and other surfaces.

We believe that the hardcoatings industry will experience growth as the use of existing materials requiring hardcoatings continues to grow, new materials requiring hardcoatings are developed and new uses of hardcoatings are discovered. Silvue s management expects additional growth in the industry as manufacturers continue to outsource the development and application of hardcoatings used on their products.

To respond to increasing demand for coating systems, Silvue is focused on growth through the development of new products providing either greater functionality or better value to its customers. Silvue currently owns nine patents relating to its coatings portfolio and continues to invest in the research and development of additional proprietary products. Further, driven by input from customers and the changing demands of the marketplace, Silvue actively endeavors to identify new applications for its existing products.

On August 31, 2004, Silvue was formed by CGI and management to acquire SDC Technologies, Inc. and on September 2, 2004, it acquired 100% of the outstanding stock of SDC Technologies, Inc. Following this acquisition, on April 1, 2005, SDC Technologies, Inc. purchased the remaining 50% it did not previously own of Nippon Arc Co. LTD, which we refer to as Nippon ARC, which was formerly operated as a joint venture with Nippon Sheet Glass Co., LTD., for approximately $3.6 million.

The results for the fiscal year ended December 31, 2005, reflects the results of Silvue and its predecessor company, SDC Technologies. In November 2005, Silvue s management made the strategic decision to halt operations at its application facility in Henderson, Nevada. The operations included substantially all of Silvue s application services business, which has historically applied Silvue s coating systems and other coating systems to customer s products and materials. The facility was shut down in November 2006.

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Results of Operations

Fiscal Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

The table below summarizes the consolidated statement of operations for Silvue for the fiscal year ended December 31, 2006 and for the fiscal year ended December 31, 2005:

	Fiscal Year Ended December 31, 2006	2005
	($ in thousands)	
Net sales	$ 24,068	$ 21,491
Cost of sales	7,098	7,497
Gross profit	16,970	13,994
Selling, general and administrative expenses	8,426	7,552
Research and development costs	1,129	1,226
Amortization of intangibles	745	709
Operating income	6,670	4,507

Net sales

Net sales for the year ended December 31, 2006 was approximately $24.1 million as compared to approximately $21.5 million for the year ended December 31, 2005, an increase of approximately $2.6 million or 12.0%. This increase was principally due to additional sales associated with Nippon ARC of approximately $2.1 million. Nippon ARC, purchased on April 1, 2005 contributed a full year s sales in 2006. In addition, growth within Silvue s core ophthalmic business and expansion in sales of Silvue s aluminum coatings products accounted for approximately $1.7 million of the increase. These increases were offset in part by the decrease in sales as a result of the closure of the facility in Henderson, Nevada.

Cost of sales

Cost of sales for the year ended December 31, 2006 was approximately $7.1 million, or 29.5% of net sales, as compared to approximately $7.5 million, or 34.9% of net sales, for the year ended December 31, 2005, a decrease of approximately $0.4 million or 5.3%. This decrease was principally due to a reduction in costs associated with the elimination of the application processing facility aggregating approximately $1.2 million. This decrease was offset in part by increased cost directly associated with the increased sales at Silvue s Nippon ARC operations totaling approximately $0.9 million.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended December 31, 2006 were approximately $8.4 million, or 35.0% of net sales, as compared to approximately $7.6 million, or 35.1% of net sales, for the year ended December 31, 2005, an increase of approximately $0.8 million or 11.5%. The increase in selling, general and administrative expenses was primarily due to (i) the inclusion of Nippon ARC, which had selling, general and administrative expenses of $1.8 million in fiscal 2006 compared to $1.5 million in fiscal 2005 and (ii) increased legal and professional fees of $0.5 million.

Research and development costs

Research and development costs for the year ended December 31, 2006 were approximately $1.1 million as compared to approximately $1.2 million for the year ended December 31, 2005.

Amortization of intangibles

Amortization of intangibles was approximately $0.7 million in each of the years ended December 31, 2006 and 2005.

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Operating income

Income from operations was approximately $6.7 million, or 27.7% of net sales for the year ended December 31, 2006 as compared to approximately $4.5 million, or 21.0% of net sales, for the year ended December 31, 2005, an increase of approximately $2.2 million or 48.0%. This increase was principally due to the acquisition of Nippon ARC which contributed approximately $0.8 million in additional operating income and from the organic growth in revenues from existing ophthalmic customers and the expansion in sales in aluminum coating products.

Anodyne

Overview

Anodyne was formed in early 2006 in order to purchase the assets and operations of AMF and SenTech which were completed on February 15, 2006. Both AMF and SenTech manufacture and distribute patient positioning devices. On October 5, 2006, Anodyne purchased a third manufacturer and distributor of patient positioning devices, Anatomic Concepts. Anatomic Concepts operations were merged into the AMF operations.

The medical support surfaces industry is fragmented in nature. Management estimates the market is comprised of approximately 70 small participants who design and manufacture products for preventing and treating decubitus ulcers. Decubitus ulcers, or pressure ulcers, are formed on immobile medical patients through continued pressure on one area of skin. Immobility caused by injury, old age, chronic illness or obesity are the main causes for the development of pressure ulcers. In these cases, the person lying in the same position for a long period of time puts pressure on a small portion of the body surface. This pressure, if continued for sustained period, can close blood capillaries that provide oxygen and nutrition to the skin. Over a period of time, these cells deprived of oxygen begin to break down and form sores. Contributing factors to the development of pressure ulcers are sheer, or pull on the skin due to the underlying fabric, and moisture, which increases the propensity to deteriorate.

The total U.S. market for compression therapy and pressure reduction/relief products was valued at approximately $1.1 billion in 2004 and is forecasted to reach $1.6 billion in 2014. Management believes the medical support surfaces industry will continue to grow due to several favorable demographic and industry trends including the increasing incidence of obesity in the United States, increasing life expectancies, and an increasing emphasis on prevention of pressure ulcers by hospitals and long term care facilities.

Beyond favorable demographic trends, Anodyne s management believes hospitals are placing an increased emphasis on the prevention of pressure ulcers. It is estimated that 2.5 million pressure ulcers are treated in the U.S. each year in acute care facilities alone, costing an estimated $1.1 billion. According to Medicare reimbursement guidelines, pressure ulcers are eligible for reimbursement by third party payers only when they are diagnosed upon hospital admission. Additionally, third party payers only provide reimbursement for preventative mattresses under limited circumstances. The end result is that if an at risk patient develops pressure ulcers while at the hospital, the hospital is required to bear the cost of healing. As a result of increasing litigation and the high cost of healing pressures ulcers, hospitals are now focusing on using pressure relief equipment to reduce the incidence of hospital acquired pressure ulcers.

Anodyne s strategy for approaching this market includes offering its customers consistently high quality products on a national basis, leveraging its scale to provide industry leading research and development and pursuing cost savings through scale purchasing and operational efficiencies.

We purchased Anodyne from CGI on August 1, 2006. As such, our consolidated financial statements include the results of operations of Anodyne for the five month period ended December 31, 2006. Anodyne s results of operations include the results of Anatomic Concepts since October 5, 2006. We have not presented comparative results for Anodyne, as the company formed in 2006 and such comparisons are unavailable. In addition, the following results of operations do not reflect any purchase accounting adjustments resulting from our acquisition.

Results of Operations

The results of operations of Anodyne from February 15, 2006 to December 31, 2006 are shown in the following table:

	Fiscal 2006 ($ in thousands)
Net sales	$ 23,367
Cost of sales	17,505
Gross profit	5,862
Selling, general and administrative expenses	4,901
Amortization expense	709
Income from operations	$ 252

Anodyne s sales were below expectations in fiscal 2006 due primarily to the delay in fulfillment of a supply contract with a major customer. The issues surrounding this delay have been substantially resolved to date and management expects Anodyne to record sales equal to or exceeding its current 2007 expectations.

Income from operations were lower than our expectations primarily due to the delay in sales which also negatively impacted cost of sales due to lower production capacity utilization. Selling, general and administrative expenses were as expected. We anticipate increased operating income for Anodyne relative to sales in fiscal year 2007 as Anodyne s SenTech operations has begun to deliver additional sales.

Liquidity and Capital Resources

On May 16, 2006 we completed the IPO and concurrent private placement of our shares, each representing a beneficial interest in the company. The net proceeds from these offerings after underwriter s commissions, discounts and offering costs totaled approximately $269.8 million.

We used the net proceeds from the IPO and private placements together with the $50 million term loan from our prior financing agreement to acquire controlling interests in, and to provide loans to, our initial businesses on May 16, 2006. On August 1, 2006 we acquired a controlling interest in Anodyne. As a consequence, our consolidated cash flows from operating, financing and investing activities reflect the inclusion of our businesses for the period between May 16, 2006 and December 31, 2006 and cash flows from Anodyne s results for five months (August 1, 2006 through December 31, 2006). Any comparison of our consolidated cash flows for this partial period in 2006 to any prior period is not meaningful.

At December 31, 2006, on a consolidated basis, cash flows provided by operating activities totaled approximately $20.6 million, which represents the inclusion of the results of operations of the businesses for 230 days (May 16, 2006 through December 31, 2006).

Cash flows used in investing activities totaled approximately $362.3 million, which principally reflects the costs to acquire the initial businesses and Anodyne. Cash flow provided by financing activities totaled $351.1 million, principally reflecting the net proceeds of the shareholder offerings and draw-downs of debt from our revolving credit facility.

At December 31, 2006, we had approximately $7.0 million of cash on hand and the following principal amounts outstanding under loans due from each of our businesses:

CBS Personnel approximately $63.5 million;

Advanced Circuits approximately $37.3 million;

Silvue approximately $17.0 million; and

Anodyne approximately $21.2 million.

In addition, we had loans due from Crosman totaling $50.5 million. These loans were repaid, together with accrued interest from the net proceeds from the sale of Crosman on January 5, 2007. See Note D, Discontinued Operations , to the consolidated financial statements for additional financial information of Crosman as of December 31, 2006.

Each loan has a scheduled maturity and each business is entitled to repay all or a portion of the principal amount of the outstanding loans, without penalty, prior to maturity.

In September 2006, our subsidiary Silvue borrowed approximately $9.0 million in term loans from us in order to redeem its outstanding cumulative preferred stock.

In October 2006, Anodyne borrowed approximately an additional $9.2 million in term loans in order finance its Anatomic acquisition.

In November 2006, CBS borrowed approximately $5.0 million in order to help finance its acquisition of SES.

Our primary source of cash is from the receipt of interest and principal on our outstanding loans to our businesses. Accordingly, we are dependent upon the earnings of and cash flow of these businesses, which are available for (i) operating expenses; (ii) payment of principal and interest under our revolving credit facility; (iii) payments to our manager due or potentially due pursuant to the management services agreement, the LLC agreement, and the supplemental put agreement; (iv) cash distributions to our shareholders and (v) investments in future acquisitions. Payments made under (iii) above are required to be paid before distributions to shareholders and may be significant and exceed the funds held by the company, which may require the company to dispose of assets or incur debt to fund such expenditures. A non-cash charge to earnings of approximately $22.5 million was recorded during the year ended December 31, 2006 in order to recognize our estimated, potential liability in connection with the supplemental put agreement between us and our manager. Approximately $7.9 million of this amount will be paid in the first quarter of fiscal 2007 (see Related Party Transactions). We believe that we currently have sufficient liquidity and resources to meet our existing obligations including anticipated distributions to our shareholders over the next twelve months.

Concurrent with the IPO, we entered into a third party $225 million prior financing agreement with Ableco Finance LLC as agent, and other lenders. On November 21, 2006, we terminated the prior financing agreement when we entered into our new revolving credit facility and repaid all the outstanding principal and interest under the prior financing agreement. We initially borrowed $96.6 million of the revolving credit facility to pay all amounts due under the prior financing agreement and to pay for the fees and costs associated with establishing the revolving credit facility.

On November 21, 2006, we obtained a $255 million revolving credit facility with an option to increase the facility by $45 million from a group of lenders led by Madison Capital Funding, LLC as agent. The revolving credit facility allows for loans at either base rate or London Interbank Offer Rate, or LIBOR. Base rate loans bear interest at a fluctuating rate per annum equal to the greater of (i) the prime rate of interest published by *The Wall Street Journal* and (ii) the sum of the Federal Funds Rate plus 0.5% for the relevant period, plus a margin ranging from 1.50% to 2.50% based upon the ratio of total debt to adjusted consolidated earnings before interest expense, tax expense, and depreciation and amortization expenses for such period, which we refer to as the total debt to EBITDA ratio. LIBOR loans bear interest at a fluctuating rate per annum equal to LIBOR, for the relevant period plus a margin ranging from 2.50% to 3.50% based on the total debt to EBITDA ratio. We are required to pay commitment fees ranging between

0.75% and 1.25% per annum on the unused portion of the revolving credit facility.

The lenders agreed to issue letters of credit under the revolving credit facility in an aggregate face amount not to exceed $50 million outstanding at any time. At no time may the (i) aggregate principal amount of all amounts outstanding under the revolving credit facility, plus (ii) the aggregate amount of all outstanding letters of credit, exceed the loan commitment thereunder.

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The revolving credit facility is secured by all the assets of the company, including our equity interests and loans to our businesses. We paid approximately $4.6 million for administrative and closing fees, which we are amortizing over the life of the loan.

The revolving credit facility contains various covenants, including financial covenants, with which we must comply. The financial covenants include (i) a requirement to maintain, on a consolidated basis, a fixed charge coverage ratio of at least 1.5:1, (ii) an interest coverage ratio not to exceed less than 3:1 and (iii) a total debt to earnings before interest, depreciation and amortization ratio of not to exceed 3:1. In addition, the revolving credit facility contains limitations on, among other things, items, certain acquisition, consolidations, sales of assets and the incurrence of debt. In January 2007, the revolving credit facility was increased by $5.0 million. Currently we are in compliance with all covenants. Outstanding indebtedness under the revolving credit facility will mature on November 21, 2011.

We intend to use our revolving credit facility to pursue acquisitions of additional businesses to the extent permitted under our revolving credit facility and to provide for working capital needs. As of December 31, 2006, the company had $85 million in revolving credit commitments outstanding under the revolving credit facility. This amount was repaid with the proceeds from the sale of Crosman on January 5, 2007.

On February 28, 2007, we purchased a majority interest in two companies, Aeroglide and Halo. The total purchase price for these acquisitions, including our share of the transactions costs, aggregated $118.7 million. We funded the transactions with excess cash on hand ($24.2 million), resulting from the Crosman sale, and borrowings under our revolving credit facility ($94.5 million). The availability of our revolving credit facility was approximately $106 million after the borrowing for these two acquisitions.

On July 18, 2006 we paid a distribution of $0.1327 per share to all holders on record on July 11, 2006 and on October 19, 2006 we paid a distribution $0.2625 per share to holders of record on October 13, 2006. On January 24, 2007, we paid a distribution of $0.30 per share to holders of record on January 18, 2007. Respectively, these distributions represent (i) a pro rata distribution for the quarter ended June 30, 2006 and (ii) a full distribution for the quarters ended September 30, 2006 and December 31, 2006. We intend to continue to declare and pay regular quarterly cash distributions. We anticipate generating cash flow available for distribution of approximately $41.2 million to $46.2 million or $1.62 to $1.82 per share for fiscal 2007, assuming the completion of this offering and the application of the proceeds thereof as described in the Use of Proceeds section of this prospectus. Assuming distributions would be paid at the same $0.30 per share rate as paid in January 2007, the estimated cash flow available for distribution for fiscal 2007 would yield an approximate coverage ratio to the distributions paid for 2007 performance of 1.4x to 1.5x. This estimate is based on our achievement of 2007 budgeted results for our businesses, including Aeroglide and Halo from March 1, 2007, excluding the results of Crosman and the gain from the sale of Crosman, which was sold on January 5, 2007. This estimate also assumes the consummation of a $60 million acquisition (either add-on or new platform business) on October 1, 2007, primarily funded by excess proceeds from this offering, with the remainder of the funding provided under the company s revolving credit facility. There can be no assurance, however, that such an acquisition will be either identified or consummated. The estimate does not consider the impact of any additional acquisitions or dispositions that we may complete in fiscal 2007 and includes numerous other assumptions that may or may not be realized. See Forward-Looking Statements for a list of the risks and uncertainties to which the estimate is subject.

Management s estimated cash available for distribution as of December 31, 2006 is approximately $23.7 million. Cash available for distribution is a non-GAAP measure that we believe provides additional information to evaluate our ability to make anticipated quarterly distributions. The table below details cash receipts and payments that are not reflected on our income statement in order to provide cash available for distribution. Cash available for distribution is not necessarily comparable with similar measures provided by other entities. We believe that cash available for distribution, together with future distributions and cash available from our businesses (net of reserves) will be sufficient to meet our anticipated distributions over the next twelve months. The table below reconciles cash available for distribution to net income and to cash

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flow provided by operating activities, which we consider to be the most directly comparable financial measure calculated and presented in accordance with GAAP.

		Year Ended December 31, 2006 ($ in thousands)
Net loss	$	(19,249)
Adjustment to reconcile net loss to cash provided by operating activities		
Depreciation and amortization		10,290
Supplemental put expense		22,456
Silvue s in-process R&D expensed at acquisition date		1,120
Advanced Circuit s loan forgiveness accrual		2,760
Minority interest		2,950
Deferred taxes		(2,281)
Loss on Ableco debt retirement		8,275
Other		(450)
Changes in operating assets and liabilities		(5,308)
Net cash provided by operating activities		20,563
Plus:		
Unused fee on delayed term loan(1)		1,291
Changes in operating assets and liabilities		5,308
Less:		
Maintenance capital expenditures(2)		
CBS Personnel		209
Crosman(3)		1,926
Advanced Circuits		392
Silvue		304
Anodyne		636
Estimated cash flow available for distribution	$	23,695(a)
Distribution paid July 2006	$	(2,587)
Distribution paid September 2006		(5,368)
Distribution paid January 2007		(6,135)
Total distributions	$	(14,090)(b)
Distribution Coverage Ratio(a)÷(b)		1.7x

(1) Represents the commitment fee on the unused portion of our third-party loans.

(2) Represents maintenance capital expenditures that were funded from operating cash flow and excludes approximately $2.3 million of growth capital expenditures for the period ended December 31, 2006.

(3) Crosman was sold on January 5, 2007 (see Note D to the consolidated financial statements).

Cash flows of certain of our businesses are seasonal in nature. Cash flows from CBS Personnel are typically lower in the first quarter of each year than in other quarters due to reduced seasonal demand for temporary staffing services and to lower gross margins during that period associated with the front-end loading of certain taxes and other payments associated with payroll paid to our employees. Cash flows from Halo are typically higher in the fourth quarter of each year than in other quarters due to increased seasonal demands for calendars and other promotional products among other factors.

Related Party Transactions

We have entered into the following agreements with our manager. Any fees associated with the agreements described below must be paid, if applicable, prior to the payment of any distributions to shareholders.

- management services agreement
- LLC agreement
- supplemental put agreement

Management Services Agreement We entered into a management services agreement with our manager effective May 16, 2006. The management services agreement provides for our manager to perform services for us in exchange for a quarterly management fee equal to 0.5% (2.0% annualized) of our adjusted net assets as of the last day of each fiscal quarter. We amended the management services agreement on November 8, 2006, to clarify that adjusted net assets are not reduced by non-cash charges associated with the supplemental put agreement, which amendment was unanimously approved by the compensation committee and the board of directors. The management fee is required to be paid prior to the payment of any distributions to shareholders. For the year ended December 31, 2006 we paid approximately $4.4 million to our manager for its quarterly management fees.

LLC Agreement As distinguished from its position of providing management services to us, pursuant to the management services agreement, our manager is also an equity holder of 100% of the allocation interests of the company. As such, our manager has the right to a distribution pursuant to a profit allocation formula upon the occurrence of certain events. Our manager has the right to cause the company to purchase the allocation interests it owns under certain circumstances, (see Supplemental Put Agreement below).

Supplemental Put Agreement Our manager is also the owner of 100% of the allocation interests in the company. Concurrent with the IPO, our manager and the company entered into a supplemental put agreement, which may require the company to acquire these allocation interests upon termination of the management services agreement. Essentially, the put rights granted to our manager require us to acquire our manager s allocation interests in the company at a price based on a percentage of the increase in fair value in the company s businesses over its basis in those businesses. Each fiscal quarter we estimate the fair value of our businesses for the purpose of determining our potential liability associated with the supplemental put agreement. Any change in the potential liability is accrued currently as a non-cash adjustment to earnings. For the year ended December 31, 2006, we recognized approximately $22.5 million in non-cash expense related to the supplemental put agreement. As a result of the sale of Crosman on January 5, 2007, our manager is currently due $7.9 million. We expect to pay our manager this amount in the first fiscal quarter of 2007.

Anodyne Acquisition On August 1, 2006, we acquired from CGI and its wholly-owned, indirect subsidiary, Compass Medical Mattress Partners, LP which we refer to as the seller, approximately 47.3% of the outstanding capital stock, on a fully-diluted basis, of Anodyne, representing approximately 69.8% of the voting power of all Anodyne stock. Pursuant to the same agreement, we also acquired from the seller all outstanding debt to seller under Anodyne s credit facility, which we refer to as original loans. On the same date, we purchased from the seller a promissory note issued by a borrower controlled by Anodyne s chief executive officer totaling $5.2 million, which we refer to as the promissory note. The promissory note is secured by shares of Anodyne stock and guaranteed by Anodyne s chief executive officer. The promissory note accrues interest at the rate of 13% per annum and is added to the note s principal balance. The note matures in August, 2008. The principal balance of the promissory note and accrued interest totals approximately $5.4 million at December 31, 2006. The purchase price for the Anodyne stock, the original loans and the promissory note totaled approximately $31.1 million, which was paid for in the form of $17.3 million in cash and 950,000 shares of our newly issued shares. The shares were valued at $13.1 million, or $13.77 per share.

Our manager acted as an advisor to us in the Anodyne acquisition for which it received transaction services fees and expense payments totaling approximately $300,000.

Advanced Circuits Acquisition In connection with the acquisition of Advanced Circuits by CGI in September 2005, Advanced Circuits loaned certain officers and members of management of Advanced Circuits $3,409,100 for the purchase of 136,364 shares of Advanced Circuit s common stock. On January 1, 2006, Advanced Circuits loaned certain officers and members of management of Advanced Circuits $4,834,150 for the purchase of an additional

193,366 shares of Advanced Circuit s common stock. The notes bear interest at 6% and interest is added to the notes. The notes are due in September 2010 and December 2010 and are subject to mandatory prepayment provisions if certain conditions are met.

Advanced Circuits granted the purchasers of the shares the right to put to Advanced Circuits a sufficient number of shares at the then fair market value of such shares, to cover the tax liability that each purchaser may have. Approximately $0.8 million of compensation expense calculated using the Black Scholes model related to these rights and is reflected in selling and general administrative expenses for the year ended December 31, 2006.

In connection with the issuance of the notes as described above, Advanced Circuits implemented a performance incentive program whereby the notes could either be partially or completely forgiven based upon the achievement of certain pre-defined financial performance targets. The measurement date for determination of any potential loan forgiveness is based on the financial performance of Advanced Circuits for the fiscal year ended December 31, 2010. The company believes that the achievement of the loan forgiveness is probable and is accruing any potential forgiveness over a service period measured from the issuance of the notes until the actual measurement date of December 31, 2010. During fiscal 2006, the company accrued approximately $1.6 million for this loan forgiveness. This expense is reflected as a component of general and administrative expenses, and is a component of other liabilities as of December 31, 2006.

Contractual Obligations and Off-Balance Sheet Arrangements

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

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

The table below summarizes the payment schedule of our contractual obligations at December 31, 2006.

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			($ in thousands)		
Operating Lease Obligations(1)	$ 28,012	$ 7,080	$ 11,002	$ 4,639	$ 5,291
Purchase Obligations(2)	83,584	39,227	24,136	20,221	
Supplemental Put Obligation(3)	14,702				
	$ 126,298	$ 46,307	$ 35,138	$ 24,860	$ 5,291

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

(2) Reflects non-cancelable commitments as of December 31, 2006, including: (i) shareholder distributions of $24.5 million, (ii) management fees of $9.6 million per year over the next five years and; (iii) other obligations, including amounts due under employment agreements.

(3) The supplemental put obligation represents the long-term portion of an estimated liability accrued as if our management services agreement with CGM had been terminated. This agreement has not been terminated and there is no basis upon which to determine a date in the future, if any, that this amount will be paid.

The table does not include the long-term portion of the actuarially developed reserve for workers compensation, which does not provide for annual estimated payments beyond one year. This liability, totaling approximately $13.2 million at December 31, 2006, is included in our balance sheet as a component of other non-current liabilities.

Critical Accounting Estimates

The following discussion relates to critical accounting policies for the company, the trust and each of our businesses.

The preparation of our financial statements in conformity with GAAP will require management to adopt accounting policies and make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates under different assumptions and judgments and uncertainties, and potentially could result in materially different results under different conditions. Our critical accounting estimates are discussed below. These estimates are generally consistent with the accounting policies followed by the businesses we plan to acquire. These critical accounting estimates are reviewed by our independent auditors and the audit committee of our board of directors.

Supplemental Put Agreement

In connection with our manager s acquisition of the allocation interests, we entered into a supplemental put agreement with our manager pursuant to which our manager has the right to cause the company to purchase the allocation interests then owned by our manager upon termination of the management services agreement for a price to be determined in accordance with the supplemental put agreement. We record the supplemental put agreement at its fair value quarterly by recording any change in value through the income statement. The fair value of the supplemental put agreement is largely related to the value of the profit allocation that our manager, as holder of allocation interests, will receive. At any point in time, the supplemental put liability recorded on the company s balance sheet is our manager s estimate of what its allocation interests are worth based upon a percentage of the increase in fair value of our businesses over our basis in those businesses. Because the supplemental put price would be calculated based upon an assumed profit allocation for the sale of all of our businesses, the growth of the supplemental put liability over time is indicative of our manager s estimate of the company s unrealized gains on its interests in our businesses. A decline in the supplemental put liability is indicative either of the realization of gains associated with the sale a business and the corresponding payment of a profit allocation to our manager (as with Crosman), or a decline in our manager s estimate of the company s unrealized gains on its interests in our businesses. We account for the change in the estimated value of the supplemental put liability on a quarterly basis in our income statement. The expected value of the supplemental put liability affects our results of operations but it does not affect our cash flows or our cash flow available for distribution. The valuation of the supplemental put agreement requires the use of complex models, which require highly sensitive assumptions and estimates. The impact of over-estimating or under-estimating the value of the supplemental put agreement could have a material effect on operating results. In addition, the value of the supplemental put agreement is subject to the volatility of our operations which may result in significant fluctuation in the value assigned to this supplemental put agreement.

Revenue Recognition

We recognize revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable and collectibility is reasonably assured. Provisions for customer returns and other allowances based on historical experience are recognized at the time the related sale is recognized.

In addition, CBS Personnel recognizes revenue for temporary staffing services at the time services are provided by CBS Personnel employees and reports revenue based on gross billings to customers. Revenue from CBS Personnel employee leasing services is recorded at the time services are provided. Such revenue is reported on a net basis (gross billings to clients less worksite employee salaries, wages and payroll-related taxes). We believe that net revenue accounting for leasing services more closely depicts the transactions with its leasing customers and is consistent with guidelines outlined in Emerging Issue Task Force which we refer to as the EITF, No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent.* The effect of using this method of accounting is to report lower revenue than would be otherwise reported.

Business Combinations

The acquisitions of our businesses are accounted for under the purchase method of accounting. The amounts assigned to the identifiable assets acquired and liabilities assumed in connection with acquisitions are based on estimated fair values as of the date of the acquisition, with the remainder, if any, to be recorded as identifiable intangibles or goodwill. The fair values are determined by our management team, taking into consideration information supplied by the management of the acquired entities and other relevant information. Such information typically includes valuations supplied by independent appraisal experts for significant business combinations. The valuations are generally based upon future cash flow projections for the acquired assets, discounted to present value. The determination of fair values requires significant judgment both by our management team and by outside experts engaged to assist in this process. This judgment could result in either a higher or lower value assigned to amortizable or depreciable assets. The impact could result in either higher or lower amortization and/or depreciation expense.

Goodwill, Intangible Assets and Property and Equipment

Trademarks are considered to be indefinite life intangibles. Goodwill represents the excess of the purchase price over the fair value of the assets acquired. Trademarks and goodwill are not amortized. However, we will be required to perform impairment reviews at least annually and more frequently in certain circumstances.

The goodwill impairment test is a two-step process, which requires management to make judgments in determining certain assumptions used in the calculation. The first step of the process consists of estimating the fair value of each of our reporting units based on a discounted cash flow model using revenue and profit forecasts and comparing those estimated fair values with the carrying values, which include the allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The determination of a reporting unit s implied fair value of goodwill requires the allocation of the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill, which is then compared to its corresponding carrying value. The impairment test for trademarks requires the determination of the fair value of such assets. If the fair value of the trademark is less than its carrying value, an impairment loss will be recognized in an amount equal to the difference. We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and/or intangible assets. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, and material adverse effects in relationships with significant customers.

The implied fair value of reporting units is determined by management and generally is based upon future cash flow projections for the reporting unit, discounted to present value. We use outside valuation experts when management considers that it would be appropriate to do so.

Intangibles subject to amortization, including customer relationships, noncompete agreements and technology are amortized using the straight-line method over the estimated useful lives of the intangible assets, which we determine based on the consideration of several factors including the period of time the asset is expected to remain in service. We evaluate the carrying value and remaining useful lives of intangibles subject to amortization whenever indications of impairment are present.

Property and equipment are initially stated at cost. Depreciation on property and equipment computed using the straight-line method over the estimated useful lives of the property and equipment after consideration of historical results and anticipated results based on our current plans. Our estimated useful lives represent the period the asset is expected to remain in service assuming normal routine maintenance. We review the estimated useful lives assigned to property and equipment when our business experience suggests that they may have changed from our initial assessment. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

We perform impairment reviews of property and equipment, when events or circumstances indicate that the value of the assets may be impaired. Indicators include operating or cash flow losses, significant decreases in market value or changes in the long-lived assets physical condition. When indicators of impairment are present, management determines whether the sum of the undiscounted future cash flows estimated to be generated by those assets is less than the carrying amount of those assets. In this circumstance, the impairment charge is determined based upon the amount by which the carrying value of the assets exceeds their fair value. The estimates of both the undiscounted future cash flows and the fair values of assets require the use of complex models, which require numerous highly sensitive assumptions and estimates.

Allowance for Doubtful Accounts

The company records an allowance for doubtful accounts on an entity-by-entity basis with consideration for historical loss experience, customer payment patterns and current economic trends. The company reviews the adequacy of the allowance for doubtful accounts on a periodic basis and adjusts the balance, if necessary. The determination of the adequacy of the allowance for doubtful accounts requires significant judgment by management. The impact of either over or under estimating the allowance could have a material effect on future operating results.

Workers Compensation Liability

CBS self-insures its workers compensation exposure for certain employees. CBS establishes reserves based upon its experience and expectations as to its ultimate liability for those claims using developmental factors based upon historical claim experience. CBS continually evaluates the potential for change in loss estimates with the support of qualified actuaries. As of December 31, 2006, CBS had approximately $20.9 million of workers compensation liability. The ultimate settlement of this liability could differ materially from the assumptions used to calculate this liability, which could have a material adverse effect on future operating results.

Deferred Tax Assets

Several of the majority owned subsidiaries have deferred tax assets recorded at December 31, 2006 which in total amount to approximately $11.8 million. These deferred tax assets are comprised of liabilities not currently deductible for tax purposes. The temporary differences that have resulted in the recording of these tax assets may be used to offset taxable income in future periods, reducing the amount of taxes we might otherwise be required to pay. Realization of the deferred tax assets is dependent on generating sufficient future taxable income. Based upon the expected future results of operations, we believe it is more likely than not that we will generate sufficient future taxable income to realize the benefit of existing temporary differences, although there can be no assurance of this. The impact of not realizing these deferred tax assets would result in an increase in income tax expense for such period when the determination was made that the assets are not realizable. (See Note K Income taxes to the financial statements included elsewhere in this report).

Recent Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board issued Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes* , which is effective January 1, 2007. The purpose of FIN 48 is to clarify and set forth consistent rules for accounting for uncertain tax positions in accordance with FAS 109, *Accounting for Income Taxes.* The cumulative effect of applying the provisions of this interpretation is required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. We are in the process of reviewing and evaluating FIN 48, and therefore the ultimate impact of its adoption is not yet known.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements.* This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. We have not yet determined the impact that the implementation of SFAS No. 157 will have on our results of operations or financial condition. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R).* This standard requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. We are currently evaluating the impact that the implementation of SFAS No. 158 will have on our financial statements. The new reporting requirements and related new footnote disclosure rules of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The new measurement date requirement applies for fiscal years ending after November 15, 2008. We have determined that this statement is not applicable to the company.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,* (SAB 108). SAB 108 was issued to provide interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying in a current year misstatement. The provisions of SAB 108 were effective for the company for its December 31, 2006 year-end. The adoption of SAB 108 had no impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* which we refer to as SFAS No. 159. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new guidance is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of the adoption of SFAS No. 159 on its financial position and results of operations**.**

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

At February 28, 2007, we were exposed to interest rate risk primarily through borrowings under our revolving credit facility because our borrowings are subject to variable interest rates. We had outstanding $94.5 million under our revolving credit facility. In the event that interest rates associated with the revolving credit facility were to increase by 100 basis points the impact on future cash flows would be a decrease of $0.94 million.

We expect to borrow under our revolving credit facility in the future in order to finance our short term working capital needs and future acquisitions.

Exchange Rate Sensitivity

At December 31, 2006, we were not exposed to significant foreign currency exchange rate risks that could have a material effect on our financial condition or results of operations.

BUSINESS

Overview

Compass Diversified Trust offers investors an opportunity to participate in the ownership and growth of middle market businesses that traditionally have been owned and managed by private equity firms or other financial investors, large conglomerates or private individuals or families. Through the ownership of a diversified group of middle market businesses, we also offer investors an opportunity to diversify their portfolio risk while participating in the cash flows of our businesses through the receipt of quarterly distributions.

We acquire and manage middle market businesses based in North America with annual cash flows between $5 million and $40 million. We seek to acquire controlling ownership interests in the businesses in order to maximize our ability to work actively with the management teams of those businesses. Our model for creating shareholder value is to be disciplined in identifying and valuing businesses, to work closely with management of the businesses we acquire to grow the cash flows of those businesses, and to exit opportunistically businesses when we believe that doing so will maximize returns. We currently own six businesses in six distinct industries and we believe that these businesses will continue to produce stable and growing cash flows over the long term, enabling us to meet our objectives of growing distributions to our shareholders, independent of any incremental acquisitions we may make, and investing in the long-term growth of the company.

In identifying acquisition candidates, we target businesses that:

- produce stable cash flows;
- have strong management teams largely in place;
- maintain defensible positions in industries with forecasted long-term macroeconomic growth; and
- face minimal threat of technological or competitive obsolescence.

We maintain a long-term ownership outlook which we believe provides us the opportunity to develop more comprehensive strategies for the growth of our businesses through various market cycles, and will decrease the possibility, often faced by private equity firms or other financial investors, that our businesses will be sold at unfavorable points in a market cycle. Furthermore, we provide the financing for both the debt and equity in our acquisitions, which allows us to pursue growth investments, such as add-on acquisitions, that might otherwise be restricted by the requirements of a third-party lender. We have also found sellers to be attracted to our ability to provide both debt and equity financing for the consummation of acquisitions, enhancing the prospect of confidentiality and certainty of consummating these transactions. In addition, we believe that our ability to be long-term owners alleviates the concern that many private company owners have with regard to their businesses going through multiple sale processes in a short period of time and the disruption that this may create for their employees or customers.

We believe that our ownership outlook provides us the opportunity to develop more comprehensive strategies for the medium and long term growth of our businesses in and out of market cycles, and decreases the possibility that our businesses will be sold at unfavorable points in a market cycle. Furthermore, our financing of both the debt and equity of our businesses allows us to pursue interesting growth opportunities, such as add-on acquisitions, that might otherwise be restricted by the presence of a third-party lender.

We have a strong management team that has worked together since 1998 and, collectively, has approximately 75 years of experience in acquiring and managing middle market businesses. During that time, our management team has developed a reputation for acquiring middle market businesses in various industries through a variety of processes. These include corporate spin-offs, transitions of family-owned businesses, management buy-outs, management based roll-ups, reorganizations, bankruptcy sales and auction-based acquisitions from financial owners. The flexibility, creativity, experience and expertise of our management team in structuring complex transactions provides us with strategic advantages by allowing us to consider non-traditional and complex transactions tailored to fit specific acquisition targets.

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Our manager, who we describe below, has demonstrated a history of growing cash flows at the businesses in which it has been involved. As an example, for the four businesses we acquired concurrent with the IPO, 2006 full year operating income increased, in total, over 2005 by 20.5%. Our quarterly distribution rate has increased by 14.3% from the IPO, which we refer to as the IPO, on May 16, 2006 until January 2007, from $0.2625 per share to $0.30 per share. From the date of the IPO until December 31, 2006 (including the distribution paid in January 2007 for the quarter ended December 31, 2006), our distribution coverage ratio (estimated cash available for distribution divided by total distributions) was 1.7x. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

At the time of the IPO, on May 16, 2006, we sold 13,500,000 shares of the trust at an offering price of $15.00 per share. Total net proceeds from the IPO were approximately $188.3 million. On May 16, 2006, we also completed, on the same terms of the IPO, the private placement of 5,733,333 shares to CGI for approximately $86.0 million and completed the private placement of 266,667 shares to Pharos I LLC, an entity owned by our management team, for approximately $4.0 million. CGI also purchased 666,667 shares for $10.0 million through the IPO. In addition, in connection with the acquisition of Anodyne on August 1, 2006, we issued 950,000 of our newly issued shares to CGI valued at $13.1 million, or $13.77 per share. Since the commencement of the IPO, we have acquired controlling interests in the following businesses (including Crosman which we recently divested):

Advanced Circuits

On May 16, 2006, concurrent with the IPO, we acquired a controlling interest in Advanced Circuits. Advanced Circuits, headquartered in Aurora, Colorado, is a provider of prototype and quick-turn printed circuit boards, or PCBs, throughout the United States. PCBs are a vital component of virtually all electronic products. The prototype and quick-turn portions of the PCB industry are characterized by customers requiring high levels of responsiveness, technical support and timely delivery. 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 rather than on other factors, such as price. Advanced Circuits meets this market need by manufacturing and delivering custom PCBs in as little as 24 hours, providing its approximately 8,000 customers with approximately 98% error-free production and real-time customer service and product tracking 24 hours per day. Advanced Circuits had full-year operating income of approximately $11.6 million for the year ended December 31, 2006.

Aeroglide

On February 28, 2007, we acquired a controlling interest in Aeroglide. Aeroglide, headquartered in Cary, North Carolina, is a leading global designer and manufacturer of industrial drying and cooling equipment. Aeroglide provides specialized thermal processing equipment designed to remove moisture and heat as well as roast, toast and bake a variety of processed products. Its machinery includes conveyer driers and coolers, impingement driers, drum driers, rotary driers, toasters, spin cookers and coolers, truck and tray driers and related auxiliary equipment and is used in the production of a variety of human foods, animal and pet feeds and industrial products. Aeroglide utilizes an extensive engineering department to custom engineer each machine for a particular application. Aeroglide had full-year operating income of approximately $3.1 million for the year ended December 31, 2006.

Anodyne

On August 1, 2006, we acquired a controlling interest in Anodyne. Anodyne, headquartered in Los Angeles, California, is a leading manufacturer of medical support services and patient positioning devices used primarily for the prevention and treatment of pressure wounds experienced by patients with limited or no mobility. Anodyne is one of the nation s leading designers and manufacturers of specialty support surfaces and is able to manufacture products in multiple locations to better serve a national customer base. Anodyne had operating income of approximately

$0.3 million for the ten and one-half month period ended December 31, 2006.

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CBS Personnel

On May 16, 2006, concurrent with out IPO, we acquired a controlling interest in CBS Personnel. CBS Personnel, headquartered in Cincinnati, Ohio, is a provider of temporary staffing services in the United States. In order to provide its 4,000 clients with tailored staffing services to fulfill their human resources needs, CBS Personnel also offers employee leasing services, permanent staffing and temporary-to-permanent placement services. CBS Personnel operates 144 branch locations in various cities in 18 states. CBS Personnel had full-year operating income of approximately $21.1 million for the year ended December 31, 2006.

Crosman

On May 16, 2006, concurrent with the IPO, we acquired a controlling interest in Crosman Acquisition Corporation, which we refer to as Crosman. Crosman, headquartered in East Bloomfield, New York, was one of the first manufacturers of airguns and is a manufacturer and distributor of recreational airgun products and related products and accessories. The Crosman brand is one of the pre-eminent names in the recreational airgun market and is widely recognized in the broader outdoor sporting goods industry. Crosman s products are sold in over 6,000 retail locations worldwide through approximately 500 retailers, which include mass market and sporting goods retailers. On January 5, 2007, we sold Crosman on the basis of a total enterprise value of approximately $143 million. We have reflected Crosman as a discontinued operation for all periods presented in this prospectus. For further information, see Note D Discontinued Operations , to our consolidated financial statements included elsewhere in this prospectus. Crosman had full-year operating income of approximately $17.6 million for the year ended December 31, 2006.

Halo

On February 28, 2007, we acquired a controlling interest in Halo, which operates under the brand names of Halo and Lee Wayne. Halo, headquartered in Sterling, Illinois, serves as a one-stop shop for over 30,000 customers, providing design, sourcing, management and fulfillment services across all categories of its customer s promotional product needs. Halo has established itself as a leader in the promotional products and marketing industry through its focus on service through its approximately 700 account executives. Halo had full-year operating income of approximately $6.1 million for the year ended December 31, 2006.

Silvue

On May 16, 2006, concurrent with the IPO, we acquired a controlling interest in Silvue. Silvue, headquartered in Anaheim, California, is a developer and producer of proprietary, high performance liquid coating systems used in the high-end eyewear, aerospace, automotive and industrial markets. Silvue s patented coating systems can be applied to a wide variety of materials, including plastics, such as polycarbonate and acrylic, glass, metals and other surfaces. These coating systems impart properties, such as abrasion resistance, improved durability, chemical resistance, ultraviolet or UV protection, anti-fog and impact resistance, to the materials to which they are applied. Silvue has sales and distribution operations in the United States, Europe and Asia, as well as manufacturing operations in the United States and Asia. Silvue had full-year operating income of approximately $6.7 million for the year ended December 31, 2006.

Our Manager

We have entered into a management services agreement with Compass Group Management LLC, who we refer to as our manager or CGM, pursuant to which our manager manages the day-to-day operations and affairs of the company and oversees the management and operations of our businesses. While working for a subsidiary of Compass Group Investments, Inc., which we refer to as CGI, our management team originally oversaw the acquisition and operations of each of our initial businesses and Anodyne prior to our acquiring them from CGI.

We pay our manager a quarterly management fee equal to 0.5% (2.0% annualized) of our adjusted net assets as of the last day of each fiscal quarter for the services it performs on our behalf. In addition, our manager is entitled to receive a profit allocation upon the occurrence of certain trigger events and has the right to cause the company to purchase the allocation interests that it owns upon termination of the management services agreement. See Our Manager Our Relationship with Our Manager and Supplemental Put Agreement and Certain Relationships and Related Party Transactions for further descriptions of the management fees and profit allocation and our manager s supplemental put right.

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 100% of their time to the affairs of the company. See Our Manager Our Relationship with Our Manager and Certain Relationships and Related Party Transactions.

Market Opportunity

We believe that the merger and acquisition market for middle market businesses is highly fragmented and provides opportunities to purchase businesses at attractive prices. For example, according to Mergerstat, during the twelve month period ended December 31, 2006, businesses that sold for less than $100 million were sold for a median of approximately 7.9x the trailing twelve months of earnings before interest, taxes, depreciation and amortization as compared to a median of approximately 9.3x for businesses that were sold for between $100 million and $300 million and 11.7x for businesses that were sold for over $300 million. We expect to acquire companies in the first two categories described above, and our manager has, to date, typically been successful in consummating attractive acquisitions at multiples at or below 7x the trailing twelve months of earnings before interest, taxes, depreciation and amortization, both on behalf of the company and prior to our formation while working for a subsidiary of CGI. We believe that among the factors contributing to lower acquisition multiples for businesses of the size we target are the fact that sellers of these frequently consider non-economic factors, such as continuing board membership or the effect of the sale on their employees and customers and that these businesses are less frequently sold pursuant to an auction process.

Our management team s strong relationship with business brokers, investment and commercial bankers, accountants, attorneys and other potential sources of acquisition opportunities offers us substantial opportunities to purchase middle market businesses.

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 improve the operating performance of these businesses by augmenting the management teams, enhancing the financial reporting and management information systems and/or bolstering corporate development efforts to help these businesses pursue organic or external growth strategies.

Our Strategy

In seeking to maximize shareholder value, we focus on the acquisition of new platforms and the management of our existing businesses (including acquisition of add-on businesses by those existing businesses). While we continue to identify, perform due diligence on, negotiate and consummate additional platform acquisitions of attractive middle market businesses that meet our acquisition criteria, we believe that our current businesses alone will allow us to pay and grow distributions to our shareholders.

Acquisition Strategy

Our strategy for new platforms involves the acquisition of businesses that we expect to be accretive to our cash flow available for distribution. An ideal acquisition candidate for us is a North American company which demonstrates a reason to exist , that is, it is a leading player in its market niches, has predictable and growing cash flows, operates in an industry with long-term macroeconomic growth and has a strong and incentivizable management team. We believe that attractive opportunities to make such acquisitions will continue to present themselves, as private sector owners seek to monetize their interests and large corporate parents seek to dispose of their non-core operations. 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.

Management Strategy

Our management strategy involves our active financial and operational management of our businesses in order to improve financial and operational efficiencies and achieve appropriate growth rates. After acquiring a controlling interest in a new business, we rely on our management team s experience and expertise to work efficiently and effectively with the management of the new business to jointly develop and execute a business plan and to manage the business consistent with our management strategy. In addition, we expect to sell businesses that we own from time to time when attractive opportunities arise. Our decision to sell a business is based on our belief that doing so will increase shareholder value to a greater extent than would continued ownership of that business. Our sale of Crosman is an example of our ability to successfully execute this strategy. With respect to the sale of Crosman, we recognized a gain of $35.9 million, having owned Crosman for under eight months and having earned operating income of $13.3 million through December 31, 2006.

In general, 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 by using structured incentive compensation and equity ownership programs 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, potentially involving capacity-related capital expenditures, introduction of new products or services, or expansion of sales or marketing programs; and

- forming strong subsidiary level boards of directors to supplement management in their development and implementation of strategic goals and objectives.

A critical component of our management strategy involves the acquisition and integration of add-on businesses. Acquisitions of add-on businesses can be an effective way of improving financial and operational performance by allowing us to:

- leverage manufacturing and distribution operations;

- capitalize on existing branding and marketing programs, as well as customer relationships;

- increase market share and penetrate new markets;

- realize cost synergies, effectively reducing the multiple paid for the add-on acquisition target; and add experienced management or management expertise;

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 or to acquire additional businesses. We believe this financing structure is beneficial to the financial and operational activities of each of our businesses by allowing our businesses to have maximum flexibility in pursuing opportunities for growth, whether organically or through acquisitions.

As a final component of our management strategy, we expect to sell businesses that we own from time to time when attractive opportunities arise. Our decision to sell a business is based on our belief that doing so will increase shareholder value to a greater extent than through continued ownership of that business.

Through the sale process, we work with third party service providers to identify appropriate buyers, maximize valuation and optimize terms to us as sellers.

Strategic Advantages

Based on the experience of our management team and its ability to identify and negotiate acquisitions, we believe we are positioned to acquire, on favorable terms, additional businesses that will increase our cash flows. Our management team has strong relationships with thousands of accountants, attorneys, business brokers, commercial and investment bankers and other potential sources of acquisition opportunities which it has cultivated over the years, and which it maintains through consistent contact. Through this network, as well as our management team s proprietary transaction sourcing efforts, we have a substantial pipeline of potential acquisition targets.

In addition, our management team, both while working for our manager and while working with a subsidiary of CGI prior to our formation, has a successful track record of and a reputation for acquiring middle market businesses in various industries through a variety of processes. These include, in some cases on behalf of CGI prior to our formation, corporate spin-offs (Silvue), transitions of family-owned businesses (CBS Personnel and Aeroglide), management buy-outs (ACI), management based roll-ups (Anodyne), auction-based acquisitions from financial owners (Halo), reorganizations and bankruptcy sales. The flexibility, creativity, experience and expertise of our management team in structuring complex transactions provides us with strategic advantages by allowing us to consider non-traditional and complex transactions tailored to fit specific acquisition targets.

Finally, because our model is to fund both the equity and debt required to consummate acquisitions through the utilization of our revolving credit facility, we expect to eliminate the cumbersome delays and closing conditions that are typically associated with transaction-specific financing, as is typically the case in such acquisitions. We believe this advantage is a powerful one and is highly unusual in the marketplace 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, our management team evaluates 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 perform valuations using a variety of analyses, including discounted cash flow analyses, development of expected value matrices, and evaluation of comparable trading and transaction values.

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 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 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 upon acquisition, 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 upon acquisition, we enhance and improve those existing systems that are deemed to be inadequate or insufficient to support our business plan for the target business. In both of these cases, ownership of a controlling interest in these businesses is an important factor in implementing necessary changes.

Financing

We intend to finance future acquisitions first, through excess cash on hand; second, through our revolving credit facility; and third, as necessary, from additional equity or debt financings. Cash flow available for distribution that is not utilized to pay distributions to our shareholders is either added to cash on hand or used to repay amounts owed under the revolving credit facility, increasing availability under that facility. In this way, this excess cash available for distribution is ultimately reinvested in the long-term growth of the Company.

We believe that having the ability to finance an entire transaction ourselves, rather than through transaction-specific third-party financing, provides us with an important and unusual strategic advantage in acquiring attractive businesses by enabling us to eliminate the delay and closing conditions inherent to transaction-specific financings. We further believe that being both the lender to and controlling equity owner of our businesses provides those businesses with the flexibility required to pursue interesting growth opportunities both organically and externally, as well as provides us with the maximum security and ability to mitigate risk in the case of industry or company underperformance.

We have a revolving credit facility with a group of lenders led by Madison. The revolving credit facility was entered into in November 2006 and matures in November 2011. It provides for a revolving line of credit of up to $255 million with an option for a $45 million increase. The revolving credit facility is secured by all the assets of the company including all its equity interests in and loans to our subsidiaries. As of February 28, 2007, we had $94.5 million outstanding under our revolving credit facility. Amounts outstanding under our revolving credit facility bear interest at a fluctuating rate per annum equal to the greater of (i) the prime rate of interest published by *The Wall Street Journal* and (ii) the sum of the Federal Funds Rate plus 0.5% for the relevant period, plus a margin ranging from 1.50% to 2.50% based upon the company s ratio of total debt to adjusted consolidated earnings before interest expense, tax expense, and depreciation and amortization expenses for such period (the total debt to EBITDA ratio). LIBOR loans bear interest at a fluctuating rate per annum equal to the London Interbank Offer Rate, or LIBOR, for the relevant period plus a margin ranging from 2.50% to 3.50% based on the company s total debt to EBITDA ratio. We are required to pay commitment fees ranging between 0.75% and 1.25% per annum on the unused portion of the revolving credit facility. Simultaneous with entering into the revolving credit facility on November 21, 2006, we terminated our prior financing arrangement, a $225 million secured credit facility with Ableco Finance, LLC and other lenders.

Corporate Information

Compass Diversified Trust is a Delaware statutory trust formed on November 18, 2005. Compass Group Diversified Holdings LLC is a Delaware limited liability company formed on November 18, 2005. Our principal executive offices are located at Sixty One Wilton Road, Second Floor, Westport, Connecticut 06880, and our telephone number is 203-221-1703. Our website is at www.CompassDiversifiedTrust.com. The information on our website is not incorporated by reference and is not part of this prospectus.

Our Businesses

Advanced Circuits

Overview

Advanced Circuits, headquartered in Aurora, Colorado, is a provider of prototype and quick-turn printed circuit boards, or PCBs, throughout the United States. Advanced Circuits also provides its customers high volume production services in order to meet its clients complete PCB needs. The prototype 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 approximately

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98% error-free production and real-time customer service and product tracking 24 hours per day. In 2006, approximately 66% of Advanced Circuits net sales were derived from highly profitable prototype and quick-turn production PCBs. Advanced Circuits success is demonstrated by its broad base of over 8,000 customers with which it does business throughout the year. These customers represent numerous end markets, and for the year ended December 31, 2006, no single customer accounted for more than 2% of net sales. Advanced Circuits senior management, collectively, has approximately 90 years of experience in the electronic components manufacturing industry and closely related industries.

Concurrent with the IPO, we made loans to and purchased a controlling interest in Advanced Circuits totaling $81.0 million. Our controlling interest represents approximately 70.2% of the outstanding stock of Advanced Circuits on a primary and fully diluted basis. For the fiscal year ended December 31, 2006 and December 31, 2005, Advanced Circuits had net sales of approximately $48.1 million and $42.0 million, respectively. Since May 16, 2006, the date of our acquisition, through December 31, 2006. Advanced Circuits had revenues of $30.6 million and operating income of $7.5 million. Advanced Circuits had total assets of $77.9 million at December 31, 2006. Revenues from Advanced Circuits represented 7.4% of our total revenues for 2006.

History of Advanced Circuits

Advanced Circuits commenced operations in 1989 through the acquisition of the assets 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. In this respect, Advanced Circuits began focusing on developing a diverse customer base, and in particular, on providing research and development professionals at equipment manufacturers and academic institutions with low volume, customized prototype and quick-turn PCBs.

In 1997 Advanced Circuits increased its capacity and consolidated its facilities into its current headquarters in Aurora, Colorado. During 2001 through 2003, despite a recession and a reduction in United States PCB manufacturing, Advanced Circuits sales expanded by 29% as its research and development focused customer base continued to require PCBs to perform day-to-day activities. In 2003, to support its growth, Advanced Circuits expanded its PCB manufacturing facility by approximately 37,000 square feet or approximately 150%.

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. According to the World Electronic Circuits Council s WECC Global/PCB Production Report 2005 Baseline Data, total PCB production in 2005 is estimated to be over $42.4 billion.

In contrast to global trends, however, production of PCBs in North America has declined by approximately 60% since 2000, to approximately $3.8 billion in 2004, and is expected to remain flat over the next several years according to the Executive Market Technology Forum A Business Intelligence Program for IPC Members which we refer to as EMTF, survey: Analysis of the North American Rigid Printed Circuit Board and Related Materials Industries for the year 2005, which we refer to as the EMTF 2005 Analysis. 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

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market share gains in the PCB industry overall, both prototype production and the more complex volume 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:

Prototype PCBs These PCBs are manufactured typically for customers in research and development departments of original equipment manufacturers, or OEMs, and academic institutions. Prototype 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 prototypes are used in the design and launch of new electronic equipment and are typically ordered in volumes of 1 to 50 PCBs. Because the prototype 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.

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 prototype 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 prototype 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 prototype PCBs, response time remains crucial as the delivery of quick-turn PCBs can be a gating item in the development of electronic products.

Volume Production PCBs These PCBs are used in the full scale production of electronic equipment and specifications conform strictly to end product requirements. 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 prototype and quick-turn production portions of the North American market, which have not been significantly impacted by the Asian based manufacturers due to the quick response time required for these products. The North American prototype and quick-turn production sectors combined represent approximately $1.7 billion in the PCB production industry according to the EMTF 2005 Analysis.

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 on 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 prototype or quick-turn PCB production or the volume production of the most complex PCBs. This offshoring 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 prototype 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 manufactures 2 to 12 layer PCBs, and has the capability to manufacture up to 14 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. 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, indicating whether Advanced Circuits has the files and data necessary to build the job 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 generally receives a premium for their prototype and quick-turn PCBs as compared to volume production PCBs.

Advanced Circuits manufactures all high margin prototype 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. Advanced Circuits has 11 external partners, some with multiple production facilities. 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)

	December 31, 2006	December 31, 2005
Prototype Production	33.4%	34.0%
Quick-Turn Production	32.1%	32.0%
Volume Production	20.4%	20.1%
Third Party	14.1%	13.9%
Total	100.0%	100.0%

(1) As a percentage of gross sales, exclusive of sale discounts.

Competitive Strengths

Advanced Circuits has established itself as a provider of prototype 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, 2006, Advanced Circuits received an average of over 290 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 significantly 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 to maximize 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 are required to maximize the efficiency of this process, management believes Advanced Circuits is uniquely positioned as a low cost manufacturer of prototype 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, 2006, Advanced Circuits did business with over 8,000 customers and added approximately 225 new customers per month. Advanced Circuits website receives thousands of hits per day and, each month during 2005, it received approximately 600 requests to establish new web accounts. For the year ended December 31, 2006, 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 prototype 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.

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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 full 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:

Increase Portion of Revenue from Prototype and Quick-Turn Production Advanced Circuits management believes it can grow revenues and cash flow by continuing to leverage its core prototype and quick-turn capabilities. Over its history, Advanced Circuits has developed a suite of capabilities that its management believes allow it to offer a combination of price and customer service unequaled in the market. Advanced Circuits intends to leverage this factor, as well as its core skill set, to increase net sales derived from higher margin prototype 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 cost 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 prototype and quick-turn PCB orders comes from smaller scale local and regional PCB manufacturers. As an early mover in the prototype and quick-turn sector of the PCB market, management believes that 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 has begun to enter into prototype and quick-turn manufacturing relationships with several subscale local and regional PCB manufacturers. According to Fabfile online, in 2004 there were over 400 small PCB manufacturers with annual sales of under $10 million. 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 is beginning to seize upon a significant 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 Over its history, Advanced Circuits has remained focused on providing the highest quality product and service to its customers. Management believes 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. As a result, Advanced Circuits plans on continuing to focus on similar programs to maintain this competitive advantage.

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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.

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. For the year ended December 31, 2006, no single customer accounted for more than 2% of net sales. The following table sets forth management s estimate of Advanced Circuits approximate customer breakdown by industry sector for the fiscal year ended December 31, 2006:

Industry Sector	**2006 Customer Distribution**
Electrical Equipment and Components	40%
Measuring Instruments	15%
Electronics Manufacturing Services	11%
Engineer Services	5%
Industrial and Commercial Machinery	5%
Business Services	5%
Wholesale Trade-Durable Goods	3%
Educational Institutions	2%
Transportation Equipment	5%
All Other Sectors Combined	9%
Total	100%

Management estimates that over 70% of all Advanced Circuits orders are new, first time designs and approximately 90% of orders are generated from existing customers. Moreover, approximately 65% of Advanced Circuits orders are derived from orders delivered within five days.

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. Advanced Circuits spends approximately 2% of net sales each year on its marketing initiatives and has 20 people 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 between 200 and 300 outbound sales calls and receive between 160 and 220 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. Many other customers are acquired over the internet where Advanced Circuits generates approximately

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 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 postage pre-paid bounce-back card on which a customer can

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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.

Competition

There are currently an estimated 460 active domestic PCB manufacturers. Advanced Circuits competitors differ among its products and services.

Competitors in the prototype and quick-turn PCBs production industry include generally large companies as well as small domestic manufacturers. The three largest independent domestic prototype and quick-turn PCB manufacturers in North America are DDi Corp., TTM Technologies, Inc. and Merix Corporation. Though each of these companies produces prototype 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 higher layer counts in response to the offshoring of low and medium layer count technology to Asia. Compared to Advanced Circuits, prototype and quick-turn PCB production accounts for much smaller portions of each of these firms 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 numerous small, local and regional manufacturers, often with revenues of under $10 million, that have long-term customer relationships and typically produce both prototype and quick-turn PCBs and production PCBs for small OEMs and EMS companies. The competitive factors in prototype 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 prototype 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 17 years, 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 13.3% of net sales for the fiscal year ended December 31, 2006.

The primary raw materials that are used in production are core materials, such as copper clad layers of glass and chemical solutions, such as 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. Though Advanced Circuits primary raw material, laminates, has recently experienced a significant increase in price, the impact on its cost of sales was minimal as the increase accounted for only a 0.5% increase in cost of sales as a percentage of net sales. Further, as price is not the primary factor affecting the purchase decision of many of Advanced Circuits customers, management has historically passed along a portion of raw material price increases to its customers.

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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, that its effective and quick execution of fabrication techniques, its website *FreeDFM.com*™ and its highly skilled workforce s expertise 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 have significant value and are material to Advanced Circuits business.

Regulatory Environment

In light of Advanced Circuits manufacturing operations, its facilities and operations 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. Advanced Circuits 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 years 2002, 2003 and 2005.

Employees

As of December 31, 2006, Advanced Circuits employed approximately 200 persons. Of these employees, there were 22 in sales and marketing, 5 in information technology, 9 in accounting and finance, 30 in engineering, 14 in shipping and maintenance, 115 in production and 5 in management. None of Advanced Circuits employees are subject to collective bargaining agreements. Advanced Circuits believes its relationship with its employees is good.

Aeroglide

Overview

Aeroglide, headquartered in Cary, North Carolina, is a leading global designer and manufacturer of industrial drying and cooling equipment. Aeroglide s machinery is used in the production of a variety of human foods, animal and pet feeds and industrial products. On February 28, 2007, we made loans to and purchased a controlling interest in Aeroglide totaling $57 million. Our controlling interest represents approximately 89% of the stock of Aeroglide on a fully diluted basis. Aeroglide had revenues of $48.1 million and operating income of $3.1 million for the full-year ended December 31, 2006.

Aeroglide produces specialized thermal processing equipment designed to remove moisture and heat from, as well as roast, toast and bake, a variety of processed products. These lines include conveyor driers and coolers, impingement driers, drum driers, rotary driers, toasters, spin cookers and coolers, truck and tray driers, and related auxiliary equipment. Aeroglide is an original equipment manufacturer fabricating its equipment in carbon or stainless steel and providing training, aftermarket components, and field service. Aeroglide utilizes an extensive engineering department to custom engineer each machine for a particular application.

History of Aeroglide

Aeroglide was founded in 1940 as a designer and manufacturer of potato packing house equipment. Within ten years of inception, Aeroglide s focus had shifted to tower driers used for grain processing. From the 1950s through the 1970s, grain driers were the dominant product line, and Aeroglide was well known by major grain processors such as ADM, Bunge, and Cargill.

Through in-house development and acquisitions during the late 1960s, Aeroglide began to market conveyor driers and rotary driers. While initially overshadowed by tower units, conveyor driers began to emerge as the most promising future opportunity for Aeroglide in the 1980s and have since become Aeroglide s dominant product line.

In the early 1990s, a newly installed management team implemented a series of strategic initiatives intended to capitalize on the inherent value of Aeroglide s thermal processing capabilities in the areas of drying and cooling. As a result, Aeroglide began to exit activities and products that did not reinforce its heat transfer expertise. As part of this strategic repositioning, Aeroglide sold a Florida subsidiary that had been purchased in 1965. Additionally, in recognition of the Aeroglide s global sales opportunity, management proactively began to develop international markets through direct foreign sales representatives. As international sales volumes increased over time, Aeroglide added foreign offices in the United Kingdom (1996), Malaysia (2002), and China (2006).

As sales momentum began to build in the late 1990s, Aeroglide focused on new product development and add-on acquisitions as future growth opportunities. Aeroglide s talented in-house development team produced several new products, including a toaster and an impingement drier. Aeroglide subsequently acquired Food Engineering Corporation, which we refer to as FEC, in 2002, and National Drying Machinery Company in 2004, adding lines of drum driers and a greater breadth of impingement drier capabilities through the latter acquisition.

Industry

Aeroglide provides equipment and aftermarket services to processing customers across three primary markets: human food, animal feed, and diversified industrial products. Within the food processing industry, Aeroglide provides equipment to manufacturers in the ready to eat cereal, snack food, fruit and vegetable, cookie, cracker and pasta, and other segments. Within the animal feed market, Aeroglide supplies machinery to end-users across the industry s two primary segments, pet food and aquaculture feed ingredients. In the industrial sectors, Aeroglide s primary customer base consists of manufacturers of chemicals, polymers, nonwovens/fibers, charcoal, and a variety of other specialized industrial products.

Food Processing: The food processing industry consists of grain and oil seed milling, sugar and confectionary product manufacturing, fruit and vegetable processing, specialty food manufacturing, dairy product manufacturing, seafood preparation and packaging, and baked goods manufacturing. A large and non-cyclical market, the food processing industry consists of many large multinational corporations and thousands of smaller-scale local and regional manufacturers.

Feed Processing: The processing of animal feed is very similar to the production of many human foods and utilizes a range of common equipment. The feed processing industry consists of two sub-segments: dog and cat food; and animal feed. The dog and cat food manufacturing industry focuses on the processing of grains, oilseed mill products, and meats into common pet food. The animal feed manufacturing industry includes all other forms of animal food, such as livestock feed, poultry feed, and aquaculture feed.

Industrial Processing: The sector is broadly defined to capture a variety of processed products. Aeroglide defines its participation to the following categories:

Chemicals The chemicals segment includes catalyst/clay products and pigment manufacturers.

Polymers The polymers segment includes absorbent gels and synthetic rubber manufacturers.

Non-Wovens/Fibers The non-wovens/fibers segment includes filter, non-woven, and synthetic fiber manufacturers.

Charcoal The charcoal segment includes charcoal and coal processors and manufacturers.

Other Industrial The other industrial segment includes minerals, metals, waste, recycling, pharmaceuticals, plastics, tobacco, and wood processors and manufacturers.

Products and Services

Aeroglide s capital equipment sales include conveyor driers and coolers, impingement driers, drum driers, rotary driers, toasters, spin cookers and coolers, truck and tray driers, and related auxiliary equipment. To complement its capital equipment sales, Aeroglide has grown its aftermarket service offering. Aeroglide s aftermarket business focuses on processing line expansions, equipment retrofits and refurbishments, spare parts and general maintenance needs.

Conveyor Driers: Conveyor driers generally account for a large portion of Aeroglide s capital equipment sales and address the widest range of end-use applications. Employed across all of the Aeroglide s primary served markets (e.g., food, feed and industrial), the conveyor drier transports a given product through a large tunnel, where airflow initially delivers heat to the product and then serves as the medium to discharge moisture from the process chamber. Aeroglide offers single-pass, multi-pass, and multi-stage conveyor driers in a broad array of configurations. A typical conveyor drier is 10 feet wide, 40 feet long, and 15 feet high. However, the size, bed configuration, and thermal processing capabilities of a conveyor drier are ultimately determined by the specific product application and the customer s facility space. Conveyor driers are available in fully assembled modules (to minimize installation time) or in knock-down form (to minimize transportation and installation costs, particularly overseas). The typical selling price for a conveyor drier ranges from $200,000 to $1.5 million.

Impingement Driers: Aeroglide impingement driers use air pressure to hold and/or agitate products during processing. Ideal for smaller products such as pharmaceuticals and snack foods, impingement driers are primarily applicable across an array of food and industrial product processes. The typical selling price for an impingement drier ranges from $500,000 to $2.0 million.

Rotary Driers: Aeroglide rotary driers are utilized in a variety of high-volume processing applications across Aeroglide s three primary served markets. Used to efficiently dry high-moisture products capable of tolerating vigorous agitation (including pet food, aquaculture feed, grains, chemicals, and wood products), rotary driers have been offered by Aeroglide for nearly 40 years. The typical selling price for a rotary drier ranges from $250,000 to $750,000.

Toasters: Aeroglide s AeroFlow™ line of toasters offers an effective and expedited processing solution for a variety of human foods. Relative to driers, toasters operate at higher temperatures and higher airflow velocities and are predominantly used in the ready to eat cereal market. The AeroFlow™ line offers faster cycle times and can be used for a range drying, toasting, roasting, and cooling applications. The typical selling price for a toaster ranges from $300,000 to $700,000.

Pulsed Fluid Bed Driers: Introduced in 2002, Aeroglide s pulsed fluid bed driers are one of Aeroglide s newest product lines. Aeroglide holds an exclusive license from the Canadian government for the product line s underlying technology, which offers a unique improvement over conventional fluid bed drying methods. Marketed under the AeroPulse™ brand name, this technology provides high thermal efficiency while using significantly less air than conventional fluid bed systems. Primarily incorporated in food and pharmaceutical processing applications, the new pulsed-air fluid bed drier technology represents a relatively untapped growth opportunity for Aeroglide. The typical selling price for a pulsed fluid bed drier ranges from $200,000 to $600,000.

Aftermarket Services: Aeroglide s aftermarket service offering includes mechanical redesign services related to customers line expansions and equipment refurbishments in addition to customized and standard replacement parts programs. Aeroglide also offers evaluative field engineering services designed to assist customers in maximizing drying equipment efficiency. Collectively, these services afford Aeroglide multiple touch points with customers between funded capital equipment projects and support Aeroglide s overall business strategy.

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Aeroglide s aftermarket service offering leverages Aeroglide s diverse mechanical design experience acquired through decades of working side-by-side with customers to evaluate and resolve equipment-related expansion and maintenance issues. The aftermarket services provide an incremental opportunity to expand Aeroglide s customer base, as such services are not exclusive to Aeroglide s estimated installed equipment base.

Aeroglide s field engineering and drier evaluation services are offered to operators of industrial process driers to assist in optimizing the performance of installed equipment. Aeroglide s worldwide field engineering staff has extensive experience in identifying and evaluating both immediate and longer-term drier performance improvement opportunities. Aeroglide s expertise extends to all makes, models, and vintages of driers across a wide variety of products and processes.

Competition

Aeroglide is the largest global designer and manufacturer of industrial drying and cooling process equipment in the world, primarily competing within a $300 million global market for conveyor driers and coolers. An estimated 50 drier and cooler manufacturers participate in the worldwide market. However, due to the fragmented nature of the industry, Aeroglide competes most directly with a handful of suppliers. Growth within the broader industry and, by extension, Aeroglide s served market, is driven by manufacturing sector expansion, capacity utilization, and capital investments in machinery and equipment.

Manufacturers of conveyor driers and coolers compete based on a common set of criteria that includes the following factors:

Reliability Since many driers and coolers are operated continuously over a 10 year to 20 year period, customers are heavily focused on equipment reliability. Many processors are, therefore, willing to pay a premium for higher quality, more reliable equipment to mitigate the cost and inconvenience of unscheduled maintenance.

Process Knowledge Design parameters for drying and cooling equipment include incoming and outgoing moisture levels, heat sensitivity, airflow requirements, and necessary retention times. As a result, manufacturers with significant thermal processing knowledge are usually differentiated in the marketplace. This is particularly important in the food and feed processing segments, where moisture uniformity failures can have a significant impact on a customer s corporate image and profitability.

Time to Delivery Typical times to delivery for Aeroglide s products range from 18 weeks to 24 weeks from the order date. Given these lead times, customers typically seek suppliers who are most capable of delivering equipment on schedule.

Energy Efficiency Depending on the application, drying and cooling equipment can consume a significant amount of energy. Accordingly, a more efficient machine can provide processors with enormous cost-of-ownership savings over the life of the equipment.

Sanitation Many processors use a single conveyor or drier machine to produce multiple products. As a result, ease of maintenance and cleaning becomes a critical factor in the selection of an equipment manufacturer to minimize cross-contamination. Effective machinery design can minimize change-over times, thereby increasing overall equipment productivity and value to the customer.

Competitive Strengths/Growth Opportunities

Experienced, Proactive Senior Management Team: Aeroglide s senior management team, which has worked together since 1992, possesses over 75 years of collective tenure with Aeroglide. During the 1990s, the team proactively developed and implemented a plan that has positioned Aeroglide for long-term growth and profitability based on its core thermal processing expertise.

Proprietary Process Engineering Expertise: Aeroglide maintains a broad base of process engineering expertise that has been developed over the past 66 years. Aeroglide s technical expertise enables Aeroglide

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customers to manufacture consumable products in a more consistent and efficient manner than its competitors.

Stable, Blue-Chip Customer Base: Aeroglide maintains long-standing relationships with many of the world s most well-known food, feed, and industrial processors. In each year since 2002, 60% to 90% of Aeroglide s top-10 customers represented repeat purchasers.

Outsourcing Strategy

Aeroglide has developed a network of high-quality third-party component manufacturers to augment in house manufacturing capabilities. These third-party manufacturers provide production flexibility, expanded capabilities and additional manufacturing capacity. Aeroglide s primary sourcing relationships are local, yet it has established new outsourcing relationships in China which it expects to develop and grow in the future. Quality and delivery of all outsourced production is managed by experienced Aeroglide personnel.

Proactive Marketing of New and Redesigned Products

Management targeted new product development as a key growth catalyst in the late 1990s, and Aeroglide has continued to invest in this area over the past several years. Aeroglide is looking to build upon recent success through proactive marketing of its impingement driers, rotary driers, toasters, and drum driers, and management expects strong organic growth from these lines going forward.

Further Penetration of the High-Growth China Market

China represents a significant and rapidly evolving growth opportunity for Aeroglide, both with respect to its sales potential and sourcing opportunities. Accordingly, Aeroglide is aggressively positioning itself in the Chinese market. To further capitalize on expected robust annual growth in the Chinese industrial drier and cooler market, Aeroglide recently opened its Shanghai office, which is supported by Aeroglide s office based in Malaysia.

Strategic Acquisitions

There may be opportunity to capitalize on the fragmented nature of the industrial drier and cooler market by proactively pursuing acquisitions. Aeroglide s prior acquisitions of FEC and national demonstrate management s ability to fulfill this growth strategy and have established Aeroglide as the industry s natural consolidator.

Customers

Aeroglide has developed long-standing relationships with many leading multinational processors of human food, animal feed, and industrial products. Due to the project-oriented nature of the business, it is common for the top customer list to vary from year to year. However, in each year since 2002, 60% to 90% of Aeroglide s top ten customers represent repeat purchasers. Over the past five years, Aeroglide s top ten customers have accounted for approximately 40% to 50% of total annual sales.

Sales and Marketing

Sales Strategy: Aeroglide possesses the largest sales and marketing organization in the industrial conveyor process drying and cooling industry. Aeroglide s integrated, highly technical outreach effort, which spans Aeroglide s applications engineering, service and installation, product testing, and traditional capital equipment and aftermarket sales departments, services current and prospective customers from four branch offices (one domestic and three international). Aeroglide approaches the market with a value-added strategy, and management reinforces this message by utilizing selected media advertising outlets and participating in numerous annual industry trade shows around the world. Aeroglide provides a high level of customer service, product-specific knowledge, and customized technical expertise through the depth of its team.

The nature of customers capital equipment purchasing decisions results in a dynamic sales cycle. For long-time customers with tightly defined thermal processing parameters, a new equipment order can conclude in three months. For prospective customers with more flexible processing requirements and rigorous internal approval processes, the sales cycle can extend for up to 12 months. On average, Aeroglide s typical sales cycle is 6 months to 9 months in duration.

Facilities

Aeroglide s Cary, North Carolina, facility serves as Aeroglide s corporate headquarters and primary manufacturing location. Aeroglide performs all of its administration, in-house production, design, and the vast majority of its process engineering work at the Cary facility. Aeroglide also leases a product testing laboratory facility and storage space in the Cary area. The combined facilities in the Cary area contain approximately 130,000 square feet and houses Aeroglide s capital equipment and aftermarket fabrication and assembly functions. In addition, Aeroglide leases sales and service facilities in Trevose, Pennsylvania; Stamford, England; Shanghai, China; and Malaysia.

Legal Proceedings

Aeroglide is, from time to time, involved in litigation and the subject of various claims and complaints arising in the ordinary course of business. In the opinion of Aeroglide s management, the ultimate disposition of these matters will not have a material adverse effect on Aeroglide s business, results of operations and financial condition.

Employees

Aeroglide employs a non-unionized workforce of approximately 200 full-time employees. In addition, Aeroglide utilizes an experienced pool of part-time direct laborers to satisfy increased production demand.

Anodyne

Overview

Anodyne headquartered in Los Angeles, California, is a leading manufacturer of medical support surfaces and patient positioning devices used primarily for the prevention and treatment of pressure wounds experienced by patients with limited or no mobility.

On August 1, 2006 we made loans to and purchased a controlling interest in Anodyne totaling $30.4 million, approximately $17.3 million of which we paid in cash and the remainder of which we paid by issuing 950,000 of our newly issued shares at a price of $13.77 per share. Our controlling interest represents approximately 47.3% of the outstanding capital of Anodyne stock on a fully diluted basis and approximately 69.8% of the voting power on a fully diluted basis.

For the full year ended December 31, 2006, Anodyne had net sales of approximately $23.4 million and had operating income of approximately $0.3 million. Since August 1, 2006, the date of our acquisition, Anodyne had revenues of $12.2 million and an operating loss of approximately $0.5 million. Anodyne had total assets of $44.7 million at December 31, 2006. Revenues from Anodyne, since our acquisition, represented approximately 3.0% of our total revenues for the 2006 fiscal year.

History of Anodyne

Anodyne was initially formed in early 2006 to acquire AMF and SenTech, located in Corona, California and Coral Springs, Florida, respectively. AMF was a leading manufacturer of powered and static mattress replacement systems, mattress overlays, seating cushions and patient positing devices. SenTech was a leading designer and manufacturer of advanced electronically controlled alternating pressure, low air loss and lateral rotation specialty support surfaces for the wound care industry. Prior to its acquisition, SenTech had established a premium brand in the less price sensitive therapeutic market while AMF competed in the more price sensitive preventive market.

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On October 5, 2006, Anodyne acquired the patient positioning device business of Anatomic, for approximately $8.6 million. In addition, acquisition costs totaling $0.5 million were accrued in connection with the purchase transaction. The acquired operations were merged into Anodyne s operations.

Industry

The medical support surfaces industry is fragmented in nature. Management estimates the market is comprised of approximately 70 small participants who design and manufacture products for preventing and treating decubitus ulcers. Decubitus ulcers, or pressure ulcers, are formed on immobile medical patients through continued pressure on one area of skin. Manufacturers of medical support surfaces typically sell to one of several large medical distribution companies who rent or sell the products to hospitals, long-term care facilities and home health care organizations.

Decubitus ulcers are caused by the placement of continuous pressure on some point of skin for a prolonged period of time. Immobility caused by injury, old age, chronic illness or obesity are the main causes for the development of pressure ulcers. In these cases, the person lying in the same position for a long period of time puts pressure on a small portion of the body surface. This pressure, if continued for a sustained period, can close blood capillaries that provide oxygen and nutrition to the skin. Over a period of time, these cells deprived of oxygen begin to break down and form sores. Contributing factors to the development of pressure ulcers are sheer, or pull on the skin due to the underlying fabric, and moisture, which increases propensity to deteriorate.

The total U.S. market for compression therapy and pressure reduction/relief products was valued at approximately $1.1 billion in 2004 and is forecasted to reach $1.6 billion in 2014. Management believes the medical support surfaces industry will continue to grow due to several favorable demographic and industry trends including the increasing incidence of obesity in the United states, increasing life expectancies, and an increasing emphasis on prevention of pressure ulcers by hospitals and long term care facilities.

According to the Centers for Disease Control and Prevention, between the years 1980 and 2000, obesity rates more than doubled among adults in the United States. Studies have shown that this increase in obesity has been a key factor in rising medical costs over the last 15 years. According to one study done at Emory University, increases in obesity rates have accounted for 27% of the increase in health care spending between 1987 and 2001. As individuals become less mobile, they are more likely to require either preventative mattresses to better disperse weight and reduce pressure areas or therapeutic mattresses to shift weight and pressure. Similar to how obesity increases the occurrence of immobility, so too does an aging society. As life expectancy expands in the US due to improved health care and nutrition, so too does the probability that an individual will be immobile for a portion of their lives. In addition, as individuals age, skin becomes more susceptible to breakdown increasing the likelihood of developing pressure ulcers.

Beyond favorable demographic trends, Anodyne s management believes hospitals and other care providers are placing an increased emphasis on the prevention of pressure ulcers. It is estimated that 2.5 million pressure ulcers are treated in the U.S. each year in acute care facilities alone, costing an estimated $1.1 billion. According to Medicare reimbursement guidelines, pressure ulcers are eligible for reimbursement by third party payers only when they are diagnosed upon hospital admission. Additionally, third party payers only provide reimbursement for preventative mattresses under limited circumstances. The end result is that if an at-risk patient develops pressure ulcers while at the hospital, the hospital is required to bear the cost of healing. As a result of increasing litigation and the high cost of healing pressures ulcers, hospitals and other care providers are now focusing on using pressure relief equipment to reduce the incidence of acquired pressure ulcers.

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Products and Services

Specialty beds, mattress replacements and overlays are the primary products currently available for pressure relief and pressure reduction to treat and prevent decubitus ulcers. The market for specialty beds and support surfaces include the acute care centers, long-term care centers, nursing home centers and home healthcare centers. Medical support surfaces are designed to have preventative and/or therapeutic uses. Four basic product categories are:

Alternating pressure mattress replacements: Mattresses which can be used for therapy or prevention and are typically manufactured using air cylinders or a combination of air cylinders and foam. Systems are designed to inflate every other cylinder while contiguous cylinders deflate in an alternating pattern. The alternating inflation and deflation prevents sustained pressure on an area of skin by shifting pressure from one area to another. Typically a control unit is included in an alternating pressure system that provides automatic changes in the distribution of air pressure. While today this segment represents a small portion of the overall market for medical support surfaces, Anodyne s management expects it to grow rapidly, due to the superior therapeutic and preventative benefits of alternating pressure and increased focus on the prevention and treatment of bed sores. Anodyne produces a range of alternating pressure mattress replacements and, as confirmed by customer interviews, is viewed as a leader in development of these systems.

Low air loss mattress replacements: Mattresses that allow air to flow from the mattress and adjust support according to the patients weight and position. Low air loss systems may provide additional features such as controlled air leakage, which reduces skin moisture levels, and lateral rotation which can aid in patient turning and reduces risks associated with fluid building up in a patient s lungs. Anodyne currently produces low air loss mattress systems which management believes is the only low air loss product on the market that gets air to the patient s skin directly through a patented process.

Static mattress replacement systems: Consists of mattresses which have no powered elements. Their support material can be composed of foam, air, water, gel or a combination of the two. In the case of water or gel materials, they are held in place with containment bladders. Static mattress replacement systems distribute a patient s body weight to lessen forces on pressure points. These products currently comprise the majority of support surfaces. Currently Anodyne manufactures a range of foam based static mattress systems.

Mattress overlays and positioning devices: These products are gel based, foam based or air filled surfaces which help to position patients and prevent the development of bed sores through reducing heat, sheer and moisture. Overlays reduce the incidence of bed sores by providing air to the patient s skin and dispersion pressure through the use of foams and gels. Positioning devices are used to position patients for procedures as well as to minimize the likelihood of developing a pressure ulcer during those procedures. Anodyne offers a range of foam based mattress overlays and positioning devices.

Competition

The competition in the medical support surfaces market is based on product performance, price and durability. Other factors may include the technological ability of a manufacturer to customize their product offering to meet the needs of large distributors. Anodyne competes with approximately 70 manufacturers of varying sizes who then sell predominantly through distributors to the acute care, long term care and home health care markets. Specific competitors include Gaymar Industries, Inc., Span America and WCW, Inc. and other smaller competitors. Anodyne differentiates itself from these competitors based on the quality of the products it manufactures as well as its ability to produce a full line of foam and air mattresses and positioning devices. While many manufacturers specialize in the production of a single type of support surface, as skills required to develop and manufacture products vary by materials used, Anodyne is able to offer its customers a full spectrum of support surfaces. In addition, Anodyne s management believes that its multiple locations provide it with a competitive advantage due to its ability to offer standard products nationwide.

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Business Strategies

Anodyne s management is focused on strategies to grow revenues, improve operating efficiency and improve gross margins. Of particular note, Anodyne has completed three acquisitions since its inception and believes that numerous benefits to consolidation exist within the support surfaces industry. The following is a discussion of these strategies:

> ***Offer customers high quality, consistent product, on a national basis*** Products produced by Anodyne and its competitors are typically bulky in nature and may not be conducive to shipping. Management believes that many of its competitors do not have the scale or resources required to produce support surfaces for national distributors and believes that customers value manufacturers with the scale and sophistication required to meet these needs.
>
> ***Leverage scale to provide industry leading research and development*** Medical support surfaces are becoming increasingly advanced in nature. Anodyne s management believes that many smaller competitors to do not have the resources required to effectively meet the changing needs of their customers and believes that increased scale acquired though acquisitions will allow it to better serve its customers through industry leading research and development.
>
> ***Pursue cost savings through scale purchasing and operational improvements*** As many of the products used to manufacture medical support surfaces are standard in nature, management believes that increased scale achieved through acquisitions will allow it to benefit from lower costs of materials and therefore lower costs of sales. In addition, management believes that there are opportunities to improve the operations of smaller acquired entities and in turn benefit from production efficiencies.

Research and Development

Anodyne develops products both independently and in partnership with large distribution intermediaries. Initial steps of product development are typically made independently. Larger distribution market participants will typically require further product development to ensure mattress systems have the desired properties while smaller distributors will tend to buy more standardized products. Anodyne has seven dedicated professionals, including individuals focused on process engineering, design engineering, and electrical engineering, working on the development of the company s next generation of support surfaces.

Customers

Support surfaces are primarily sold through distributors to acute care (hospitals) facilities, long term care facilities and home health care organizations. The acute care distribution market for support surfaces is dominated by large suppliers such as Stryker Corporation, Hillenbrand Industries Inc. and Kinetic Concepts, Inc. Beyond national distribution intermediaries there are numerous smaller local distributors who will purchase more standardized support surfaces from Anodyne as quantities ordered may not be adequate to justify further development and customization.

Suppliers

Anodyne s two primary raw materials used are polyurethane foam and fabric (primarily nylon fabric). Among Anodyne s largest suppliers are Foamex International, Inc. and Future Foam, Inc. Anodyne uses multiple suppliers for foam and fabric and believes that these raw materials are in adequate supply and are available from many suppliers at competitive prices.

Intellectual Property

Many of Anodyne s products are patent protected in the United States. Anodyne has five patents issued, filed from 1996 to 2005, and has two filed and pending patents.

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Regulatory Environment

The FDCA, and regulations issued or proposed thereunder, provide for regulation by the FDA of the marketing, manufacture, labeling, packaging and distribution of medial devices, including Anodyne s products. These regulations require, among other things, that medical device manufacturers register with the FDA, list devices manufactured by them, and file various inspections by regulatory authorities and must comply with good manufacturing practices as required by the FDA and state regulatory authorities. Anodyne s management believes that the company is in substantial compliance with applicable regulations and does not anticipate having to make any material expenditures as a result of FDA or other regulatory requirements.

Legal Proceedings

Anodyne is, from time to time, involved in litigation and the subject of various claims and complaints arising in the ordinary course of business. In the opinion of Anodyne s management, the ultimate disposition of these matters will not have a material adverse effect on Anodyne s business.

Employees

As of December 31, 2006, Anodyne employed 128 persons in all its locations. In addition, there were 174 leased employees consisti