UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2012

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _________ to _________

Commission File Number: 0-24277

BLACK DIAMOND, INC.

(Exact name of registrant as specified in its charter)

Delaware	58-1972600
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2084 East 3900 South
Salt Lake City, Utah
(Address of principal executive offices)
84124
(Zip code)

(801) 278-5552
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES ☐ NO ☒

As of November 1, 2012, there were 31,354,450 shares of common stock, par value $0.0001, outstanding.

INDEX

BLACK DIAMOND, INC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BLACK DIAMOND, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	$ 14,287	$ 2,400
Accounts receivable, less allowance for doubtful accounts of $551 and $326, respectively	33,932	22,718
Inventories	65,038	47,137
Prepaid and other current assets	2,246	2,472
Income tax receivable	492	-
Deferred income taxes	2,270	2,270
Total Current Assets	118,265	76,997
Property and equipment, net	16,159	14,019
Definite lived intangible assets, net	33,478	16,108
Indefinite lived intangible assets	47,629	32,650
Goodwill	54,214	38,226
Deferred income taxes	39,645	48,429
Other long-term assets	1,747	1,298
TOTAL ASSETS	$ 311,137	$ 227,727
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 23,355	$ 16,090
Income tax payable	-	254
Current portion of long-term debt	26,016	673
Total Current Liabilities	49,371	17,017
Long-term debt	16,328	37,397
Other long-term liabilities	1,780	1,139
TOTAL LIABILITIES	67,479	55,553
Stockholders' Equity		
Preferred stock, $.0001 par value; 5,000 shares authorized; none issued	-	-
Common stock, $.0001 par value; 100,000 shares authorized; 31,428 and 21,839 issued and 31,353 and 21,764 outstanding	3	2
Additional paid in capital	470,951	402,716
Accumulated deficit	(231,878)	(233,286)
Treasury stock, at cost	(2)	(2)
Accumulated other comprehensive income	4,584	2,744
TOTAL STOCKHOLDERS' EQUITY	243,658	172,174
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 311,137	$ 227,727

See accompanying notes to unaudited condensed consolidated financial statements.

BLACK DIAMOND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	THREE MONTHS ENDED	
	September 30, 2012	September 30, 2011
Sales		
Domestic sales	$ 19,128	$ 15,868
International sales	29,614	26,172
Total sales	48,742	42,040
Cost of goods sold	30,283	26,043
Gross profit	18,459	15,997
Operating expenses		
Selling, general and administrative	16,347	12,824
Restructuring charge	86	219
Merger and integration	76	-
Transaction costs	415	-
Total operating expenses	16,924	13,043
Operating income	1,535	2,954
Other (expense) income		
Interest expense	(722)	(720)
Interest income	9	5
Other, net	521	(702)
Total other expense, net	(192)	(1,417)
Income before income tax	1,343	1,537
Income tax expense	617	530
Net income	726	1,007
Other comprehensive income:		
Foreign currency translation adjustment, net of taxes	2,628	(344)
Unrealized (loss) income on hedging activities, net of taxes	(492)	493
Other comprehensive income	2,136	149
Comprehensive income	$ 2,862	$ 1,156
Earnings per share:		
Basic	$ 0.02	$ 0.05
Diluted	0.02	0.05
Weighted average shares outstanding:		
Basic	31,329	21,855
Diluted	31,710	22,101

See accompanying notes to unaudited condensed consolidated financial statements.

BLACK DIAMOND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	NINE MONTHS ENDED	
	September 30, 2012	September 30, 2011
Sales		
Domestic sales	$ 53,569	$ 44,670
International sales	73,507	64,766
Total sales	127,076	109,436
Cost of goods sold	77,535	67,333
Gross profit	49,541	42,103
Operating expenses		
Selling, general and administrative	43,441	37,084
Restructuring charge	86	993
Merger and integration	76	-
Transaction costs	1,665	-
Total operating expenses	45,268	38,077
Operating income	4,273	4,026
Other (expense) income		
Interest expense	(2,068)	(2,157)
Interest income	43	31
Other, net	616	145
Total other expense, net	(1,409)	(1,981)
Income before income tax	2,864	2,045
Income tax expense	1,456	681
Net income	1,408	1,364
Other comprehensive income:		
Foreign currency translation adjustment, net of taxes	2,491	833
Unrealized (loss) income on hedging activities, net of taxes	(651)	58
Other comprehensive income	1,840	891
Comprehensive income	$ 3,248	$ 2,255
Earnings per share:		
Basic	$ 0.05	$ 0.06
Diluted	0.05	0.06
Weighted average shares outstanding:		
Basic	29,281	21,841
Diluted	29,631	22,033

See accompanying notes to unaudited condensed consolidated financial statements.

BLACK DIAMOND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	NINE MONTHS ENDED	
	September 30, 2012	**September 30, 2011**
Cash Flows From Operating Activities:		
Net income	$ 1,408	$ 1,364
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of property and equipment	2,695	2,358
Amortization of intangible assets	1,397	998
Accretion of notes payable	758	755
Loss on disposition of assets	35	209
Stock-based compensation	1,314	2,503
Deferred income taxes	1,327	649
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(9,390)	(8,022)
Inventories	(8,669)	(9,165)
Prepaid and other current assets	322	(308)
Accounts payable and accrued liabilities	311	(224)
Net Cash Used In Operating Activities	(8,492)	(8,883)
Cash Flows From Investing Activities:		
Purchase of businesses, net of cash received	(40,128)	-
Proceeds from disposition of property and equipment	33	30
Purchase of property and equipment	(3,637)	(2,487)
Net Cash Used In Investing Activities	(43,732)	(2,457)
Cash Flows From Financing Activities:		
Proceeds from long-term debt, revolving lines of credit and capital leases	1,018	9,954
Proceeds from exercise of stock options	569	151
Proceeds from the sale of common stock, net	62,562	-
Net Cash Provided By Financing Activities	64,149	10,105
Effect of foreign exchange rates on cash	(38)	145
Change in Cash and Cash Equivalents	11,887	(1,090)
Cash and Cash Equivalents, beginning of period	2,400	2,767
Cash and Cash Equivalents, end of period	$ 14,287	$ 1,677
Supplemental Disclosure of Cash Flow Information:		
Cash paid (received) for income taxes	$ 843	$ (46)
Cash paid for interest	$ 1,229	$ 1,345
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Stock issued for acquisition	$ 3,791	$ -

See accompanying notes to unaudited condensed consolidated financial statements.

BLACK DIAMOND, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except per share amounts)

NOTE 1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements of Black Diamond, Inc. and subsidiaries ("Black Diamond" or the "Company," which may be referred to as "we," "us," or "our") as of and for the three and nine months ended September 30, 2012 and 2011, have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the unaudited condensed consolidated financial statements have been included. The results of the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be obtained for the year ending December 31, 2012. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission (the "Commission" or "SEC").

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Certain costs are estimated for the full year and allocated to interim periods based on estimates of time expired, benefit received, or activity associated with the interim period. Actual results could differ from these estimates. Some of the more significant estimates relate to revenue recognition, hedge accounting, allowance for doubtful accounts, inventory, long-lived and intangible assets and income taxes.

Nature of Business

Black Diamond is a global leader in designing, manufacturing and marketing innovative active outdoor performance products for climbing, mountaineering, backpacking, skiing, cycling and other outdoor recreation activities for a wide range of year-round use. Our principal brands include Black Diamond®, Gregory™, POC™ and PIEPS™ through which we target the demanding requirements of core climbers, skiers and cyclers, more general outdoor performance enthusiasts and consumers interested in outdoor-inspired gear for their urban activities. Our Black Diamond®, Gregory™, POC™ and PIEPS™ brands are iconic in the active outdoor industry and are linked intrinsically with the modern history of the sports we serve. We believe our brands are synonymous with performance, innovation, durability and safety that the outdoor and action sport communities rely on and embrace in their active lifestyle.

Significant Accounting Policies

There have been no significant changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Recent Accounting Pronouncements

On May 12, 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU No. 2011-04 was issued concurrently with International Financial Reporting Standards ("IFRS") 13 *Fair Value Measurements*, to provide largely identical guidance about fair value measurement and disclosure requirements. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. This standard is effective prospectively for interim and annual periods beginning after December 15, 2011 (for us this was our 2012 first quarter). The Company adopted the provisions of this update during the three months ended March 31, 2012, but did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

On June 16, 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. ASU No. 2011-05 amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. ASU No. 2011-05 requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (for us was our 2012 first quarter), with early adoption permitted. The Company adopted the provisions of this update during the three months ended March 31, 2012, which changed the order in which certain financial statements are presented and provides additional detail on those financial statements as applicable, but did not have any other impact on our financial statements.

On July 27, 2012, the FASB issued ASU No. 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. ASU No. 2012-02 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test for indefinite-lived intangible assets. An organization that elects to perform a qualitative assessment is required to perform the quantitative impairment test for an indefinite-lived intangible asset if it is more likely than not that the asset is impaired. This standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (for us this will be our 2013 first quarter), with early adoption permitted. The Company plans to early adopt the provisions of this update during our 2012 fourth quarter. The Company believes the adoption of this update will change the process in how it performs its indefinite-lived intangible asset impairment test, but will not have any other impact on our financial statements.

NOTE 2. PUBLIC OFFERING

On February 22, 2012, Black Diamond consummated the closing of a public offering (the "Offering") of 7,750 shares of the Company's common stock, plus an additional 1,163 shares of common stock to cover an over-allotment option granted to the underwriters, at a price to the public of $7.50 per share (the "Offering Price"). Included in the total number of shares of common stock sold in the Offering were 1,333 shares of common stock purchased at the Offering Price by certain of the Company's officers, directors and employees (the "Reserved Shares"). The Reserved Shares were subject to lock-up agreements restricting the sales of such shares for a period of 90 days, subject to extension under certain circumstances. The underwriters received an underwriting discount of 6%, or $0.45 per share, in connection with the sale of the shares of common stock in the Offering, other than with respect to the sale of the Reserved Shares, for which the underwriters did not receive any underwriting discount. The underwriters exercised the overallotment option in full at the closing of the Offering. The net proceeds to the Company from the Offering, before expenses, were approximately $63,400. The common stock was offered and sold pursuant to a prospectus dated February 1, 2011, a preliminary prospectus supplement filed with the Commission on February 15, 2012 and a prospectus supplement filed with the SEC on February 17, 2012, in connection with a takedown from the Company's shelf registration statement on Form S-3 (File No. 333-171164) declared effective by the SEC on February 1, 2011.

NOTE 3. ACQUISITIONS

On July 2, 2012, the Company acquired all of the issued and outstanding shares of capital stock of POC Sweden AB ("POC"), a Stockholm-based developer and manufacturer of protective gear for action sports athletes pursuant to the terms of the Share Transfer Agreement (the "Agreement") dated as of June 7, 2012, and as amended on July 2, 2012 (the "Amendment," and together with the Agreement, the "POC Agreement"), by and among the Company, Ember Scandinavia AB, a Swedish corporation and a wholly owned subsidiary of the Company, and the shareholders of POC (the "Sellers"). Under the terms of the POC Agreement, the Company acquired POC for a total consideration valued at 311,300 Swedish kronor (SEK) or $44,917 through the delivery to the Sellers of $40,569 in cash and 460 shares of Black Diamond common stock, par value $0.0001 (the "Black Diamond Shares"). The Black Diamond Shares issued to the Sellers were valued based on the average closing price of such shares on NASDAQ-GS for the ten consecutive trading days ending five trading days prior to the execution of the Agreement. The Black Diamond Shares issued at closing are subject to a lock-up agreement (the "POC Lock-up Agreement") restricting sales for two years and are pledged to the Company as security for indemnification claims under the POC Agreement. The Company's actual closing stock price was $9.45 on June 29, 2012, the last closing stock price prior to the completion of the POC acquisition. Because the Black Diamond Shares issued to the Sellers are subject to a two-year lock-up pursuant to the POC Lock-up Agreement, a discount of $1.21 (12.8%) was applied against the $9.45 closing stock price to yield a fair value of $8.24 per share. The 12.8% discount was calculated using the Finerty model with a two-year term and a volatility of 40.5%.

The Company believes the acquisition of POC is expected to provide the Company with the following benefits:

- increased intellectual property that compliments and expands multi-seasonal offerings;
- greater combined global revenue balance;
- improved efficiencies by combining certain operational functions;
- ability to better leverage existing supply chain and distribution channels;
- advance the development and appeal of products; and
- access to ample liquidity to fuel brand penetration and expansion.

(in thousands, except per share amounts)

The Company's fair value estimates for the purchase price allocation are preliminary and may change during the allowable allocation period, which is up to one year from the date of acquisition, as we continue to obtain information that existed as of the date of acquisition so that we may finalize the assets acquired and liabilities assumed and determine the associated fair values. The following table is a reconciliation to the fair value of the purchase consideration and how the purchase consideration is allocated to assets acquired and liabilities assumed which have been estimated at their fair values. The excess of purchase consideration over the assets acquired and liabilities assumed is recorded as goodwill.

	Number of Shares	Estimated Fair Value
Cash Paid	-	$ 40,569
Issuance of Shares of Black Diamond, Inc.	460	3,791
Total Purchase Consideration	460	$ 44,360
Assets Acquired and Liabilities Assumed		
Assets		
Cash and cash equivalents		$ 441
Accounts receivable, net		1,350
Inventories		8,983
Prepaid and other current assets		848
Property and equipment		1,203
Amortizable definite lived intangible assets		17,800
Identifiable indefinite lived intangible assets		14,200
Goodwill		15,158
Other long-term assets		512
Total Assets		60,495
Liabilities		
Accounts payable and accrued liabilities		6,054
Current portion of long-term debt		1,664
Long-term debt		649
Deferred income taxes		7,387
Other long-term liabilities		381
Total Liabilities		16,135
Net Book Value Acquired		$ 44,360

The amount of accounts receivable deemed to be not collectible was $115. The estimated fair value of inventory was recorded at expected sales price less cost to sell plus a reasonable profit margin for selling efforts. The debt assumed as part of the Company's acquisition of POC consists of (i) a line of credit with an outstanding balance of $1,277 with a variable interest rate of 4.2%, which matures on December 31, 2012, (ii) a term note of $865 with an interest rate of 9.2%, which was subsequently reduced to 6.0% on October 10, 2012, and which matures on November 30, 2014 and (iii) $171 in capital leases and other debt.

In connection with the acquisition, the Company acquired exclusive rights to POC's tradenames and trademarks. The intangible assets, other than goodwill, acquired and related weighted average useful lives are as follows:

(in thousands, except per share amounts)

	Gross	Weighted Average Useful Life
Intangibles subject to amortization		
Customer relationships	$ 9,900	13.1 years
Product technologies	5,800	16.0 years
Tradenames and trademarks	2,100	20.0 years
Intangibles not subject to amortization		
Tradenames and trademarks	14,200	N/A
	$ 32,000	14.8 years

The fair value of POC's assembled workforce and buyer-specific synergies has been included in goodwill. There is no amount of goodwill that is expected to be deductible for tax purposes.

Pro Forma Results

The following pro forma results are based on the individual historical results of the Company and POC, with adjustments to give effect to the combined operations as if the acquisition had been consummated at the beginning of the periods presented. The pro forma results are intended for information purposes only and do not purport to represent what the Company's results of operations would actually have been had the Company's acquisition of POC on July 2, 2012 in fact occurred at the beginning of the earliest periods presented.

	THREE MONTHS ENDED	NINE MONTHS ENDED	
	September 30, 2011	September 30, 2012	September 30, 2011
Sales	$ 48,468	$ 132,082	$ 119,197
Net income (loss)	$ 1,834	$ 164	$ (3,176)
Net income (loss) per share - basic	$ 0.08	$ 0.01	$ (0.15)
Net income (loss) per share - diluted	$ 0.08	$ 0.01	$ (0.15)

NOTE 4. INVENTORIES

Inventories, as of September 30, 2012 and December 31, 2011, were as follows:

	September 30, 2012	December 31, 2011
Finished goods	$ 58,043	$ 41,325
Work-in-process	931	888
Raw materials and supplies	6,064	4,924
	$ 65,038	$ 47,137

(in thousands, except per share amounts)

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, net as of September 30, 2012 and December 31, 2011, were as follows:

	September 30, 2012	December 31, 2011
Land	$ 2,850	$ 2,850
Building and improvements	4,345	3,498
Furniture and fixtures	3,800	3,301
Computer hardware and software	3,824	3,387
Machinery and equipment	9,438	7,428
Construction in progress	789	640
	25,046	21,104
Less accumulated depreciation	(8,887)	(7,085)
	$ 16,159	$ 14,019

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

There was an increase in goodwill during the three and nine months ended September 30, 2012 from $38,226 to $54,214 due to the Company's acquisition of POC on July 2, 2012. The following table summarizes the changes in goodwill:

Balance at December 31, 2011	$ 38,226
Increase due to acquisitions	15,158
Change due to foreign currency	830
Balance at September 30, 2012	$ 54,214

Indefinite Lived Intangible Assets

The Company owns certain tradenames and trademarks which provide Black Diamond Equipment, Ltd. ("Black Diamond Equipment" or "BDEL"), Gregory Mountain Products, Inc. ("Gregory" or "GMP"), and POC with the exclusive and perpetual rights to manufacture and sell their respective products. There was an increase in tradenames and trademarks during the three and nine months ended September 30, 2012 from $32,650 to $47,629 due to the Company's acquisition of POC on July 2, 2012. The following table summarizes the changes in indefinite lived intangible assets:

Balance at December 31, 2011	$ 32,650
Increase due to acquisitions	14,200
Change due to foreign currency	779
Balance at September 30, 2012	$ 47,629

(in thousands, except per share amounts)

Definite Lived Intangible Assets, net

Intangible assets such as certain customer relationships, core technologies and product technologies are amortizable over their estimated useful lives. The following table summarizes the changes in gross definite lived intangible assets:

Balance at December 31, 2011	$ 18,215
Increase due to acquisitions	17,800
Change due to foreign currency	977
Balance at September 30, 2012	$ 36,992

Intangible assets, net of amortization as of September 30, 2012 and December 31, 2011, were as follows:

	September 30, 2012	December 31, 2011
Customer relationships	$ 26,819	$ 16,375
Core technologies	1,505	1,505
Product technologies	6,453	335
Trade name	2,215	-
	36,992	18,215
Less accumulated amortization	(3,514)	(2,107)
	$ 33,478	$ 16,108

NOTE 7. LONG-TERM DEBT

Long-term debt, net as of September 30, 2012 and December 31, 2011, was as follows:

	September 30, 2012	December 31, 2011
Revolving credit facility	$ 25,562	$ 22,356
5% Senior Subordinated Notes due 2017	15,725	14,980
Trademark payable	-	587
Capital leases	134	147
Term note	923	-
	42,344	38,070
Less current portion	(26,016)	(673)
	$ 16,328	$ 37,397

The long-term debt agreements contain certain restrictive debt covenants that require the Company and its subsidiaries to maintain a minimum trailing twelve month earnings before interest, taxes, depreciation, and amortization (“EBITDA”), a positive amount of asset coverage, a minimum net worth, and a fixed charge coverage ratio. At September 30, 2012, the Company was in compliance with all associated covenants. Under the revolving credit facility, the Company had $3,399 and $903 in letters of credit as of September 30, 2012 and December 31, 2011, respectively.

NOTE 8. OTHER LONG-TERM LIABILITIES

Other long-term liabilities were $1,780 and $1,139 as of September 30, 2012 and December 31, 2011, respectively. $1,145 of the balance as of September 30, 2012 relate to a pension liability of the benefit plan for the Company’s Swiss employees that, under U.S. GAAP, is considered to be a defined benefit plan. The Company also has an insurance policy whereby any underfunded amounts related to the pension liability are recoverable from the insurance company. The Company has recorded a receivable of $1,145 and $1,139 as other long-term assets for the underfunded amount as of September 30, 2012 and December 31, 2011, respectively.

(in thousands, except per share amounts)

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's primary exchange rate risk management objective is to mitigate the uncertainty of anticipated cash flows attributable to changes in exchange rates. The Company primarily focuses on mitigating changes in cash flows resulting from sales denominated in currencies other than the U.S. dollar. The Company manages this risk primarily by using currency forward and option contracts. If the anticipated transactions are deemed probable, the resulting relationships are formally designated as cash flow hedges.

At September 30, 2012, the Company's derivative contracts had a remaining maturity of one and a half years or less. The counterparty to these transactions had both long-term and short-term investment grade credit ratings. The maximum net exposure to the counterparty, which is generally limited to the aggregate unrealized loss of all contracts with that counterparty, was $193 at September 30, 2012. The Company's derivative counterparty has strong credit ratings and as a result, the Company does not require collateral to facilitate transactions.

The Company held the following contracts designated as hedged instruments as of September 30, 2012 and December 31, 2011:

	September 30, 2012	
	Notional Amount	Latest Maturity
Foreign exchange contracts - British Pounds	1,157	August-13
Foreign exchange contracts - Canadian Dollars	9,007	September-13
Foreign exchange contracts - Euros	18,628	February-14
Foreign exchange contracts - Swiss Francs	23,988	February-14

	December 31, 2011	
	Notional Amount	Latest Maturity
Foreign exchange contracts - Norwegian Kroners	3,633	September-12
Foreign exchange contracts - British Pounds	1,632	February-13
Foreign exchange contracts - Euros	14,937	February-13
Foreign exchange contracts - Swiss Francs	24,225	February-13
Foreign exchange contracts - Canadian Dollars	9,141	March-13

The Company accounts for these contracts as cash flow hedges and tests effectiveness by determining whether changes in the cash flow of the derivative offset, within a range, changes in the cash flow of the hedged item. For contracts that qualify as effective hedge instruments, the effective portion of gains and losses resulting from changes in fair value of the instruments are included in accumulated other comprehensive income and reclassified to sales in the period the underlying hedge item is recognized in earnings. $157 and $245 were reclassified to sales during the three months ended September 30, 2012 and 2011, respectively, and $278 and $(30) were reclassified to sales during the nine months ended September 30, 2012 and 2011, respectively.

As of December 31, 2011, the Company reported an accumulated derivative instrument gain of $506. During the nine months ended September 30, 2012, the Company reported an adjustment to accumulated other comprehensive income of $(651), as a result of the change in fair value of these contracts, resulting in an accumulated derivative instrument loss of $145 reported as of September 30, 2012.

(in thousands, except per share amounts)

The following table presents the balance sheet classification and fair value of derivative instruments as of September 30, 2012 and December 31, 2011:

	Classification	September 30, 2012	December 31, 2011
Derivative instruments in asset positions:			
Forward exchange contracts	Prepaid and other current assets	$ 444	$ 842
Derivative instruments in liability positions:			
Forward exchange contracts	Accounts payable and accrued liabilities	$ 637	$ 156

NOTE 10. FAIR VALUE OF MEASUREMENTS

We measure certain financial assets and liabilities at fair value on a recurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, under a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1- inputs to the valuation methodology are quoted market prices for identical assets or liabilities in active markets.

Level 2- inputs to the valuation methodology include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3- inputs to the valuation methodology are based on prices or valuation techniques that are unobservable.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Forward exchange contracts	$ -	$ 444	$ -	$ 444
	$ -	$ 444	$ -	$ 444
Liabilities				
Forward exchange contracts	$ -	$ 637	$ -	$ 637
	$ -	$ 637	$ -	$ 637

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Forward exchange contracts	$ -	$ 842	$ -	$ 842
	$ -	$ 842	$ -	$ 842
Liabilities				
Forward exchange contracts	$ -	$ 156	$ -	$ 156
	$ -	$ 156	$ -	$ 156

(in thousands, except per share amounts)

NOTE 11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing earnings by the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed by dividing earnings by the total of the weighted average number of shares of common stock outstanding during each period, plus the effect of outstanding stock options and unvested restricted stock grants. Potentially dilutive securities are excluded from the computation of diluted earnings per share if their effect is anti-dilutive.

The following table is a reconciliation of basic and diluted shares of common stock outstanding used in the calculation of earnings per share:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Weighted average shares outstanding - basic	31,329	21,855	29,281	21,841
Effect of dilutive stock awards	381	246	350	192
Weighted average shares outstanding - diluted	31,710	22,101	29,631	22,033
Earnings per share:				
Basic	$ 0.02	$ 0.05	$ 0.05	$ 0.06
Diluted	0.02	0.05	0.05	0.06

For the three and nine months ended September 30, 2012, diluted earnings per share excludes the anti-dilutive effect of options to purchase 930 and 590, respectively, shares of common stock whose exercise prices were higher than the average market price of the Company's common stock for the three and nine months ended September 30, 2012 and 750 shares of unvested restricted stock as their required performance or market conditions were not met.

For the three and nine months ended September 30, 2011, diluted earnings per share excludes the anti-dilutive effect of options to purchase 613 and 848, respectively, shares of common stock whose exercise prices were higher than the average market price of the Company's common stock for the three and nine months ended September 30, 2011 and 750 shares of unvested restricted stock as their required performance or market conditions were not met.

NOTE 12. STOCK-BASED COMPENSATION PLAN

Under the Company's 2005 Stock Incentive Plan (the "2005 Plan"), the Board of Directors has flexibility to determine the type and amount of awards to be granted to eligible participants, who must be employees, directors, officers or consultants of the Company or its subsidiaries. The 2005 Plan allows for grants of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, and restricted units. The aggregate number of shares of common stock that may be granted through awards under the 2005 Plan to any employee in any calendar year may not exceed 500 shares. The 2005 Plan will continue in effect until June 2015 unless terminated sooner.

During the nine months ended September 30, 2012, the Company issued 653 stock options, under the Company's 2005 Plan, to employees of the Company. Of the 653 options issued, 40 will vest in four equal consecutive quarterly tranches from the date of grant. 500 options will vest in four equal consecutive yearly tranches on April 1, 2015, 2016, 2017 and 2018. The remaining 113 options granted will vest in three installments as follows: 43 shares shall vest on December 31, 2014, 34 shares shall vest on December 31, 2015 and December 31, 2016, and 2 shares shall vest on December 31, 2017.

For computing the fair value of the stock-based awards, the fair value of each option grant has been estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions:

(in thousands, except per share amounts)

Options Granted During Nine Months Ended September 30, 2012

Number of options	153	500
Option vesting period	1-5 Years	3-6 Years
Grant price	\$7.64 - \$9.89	\$13.00 - \$16.00
Dividend yield	0.00%	0.00%
Expected volatility (a)	53.3% - 59.2%	50.3% - 58.6%
Risk-free interest rate	.71% - 1.44%	.39% - 1.04%
Expected life (years)	5.31 - 7.33	3.25 - 6.25
Weighted average fair value	\$4.40 - \$5.40	\$2.64 - \$3.94

(a) Since the Company's historical volatility was not representative of the ongoing future business, the Company's historical volatility was based on a combination of the Company's volatility and the historical volatility of a peer group of companies within similar industries and similar size as the Company.

Using these assumptions, the fair value of the stock options granted during the nine months ended September 30, 2012 was \$2,469, which will be amortized over the vesting period of the options.

The total non-cash stock compensation expense related to stock options and restricted stock recorded by the Company during the three and nine months ended September 30, 2012 and 2011, respectively, was as follows:

	THREE MONTHS ENDED	
	September 30, 2012	September 30, 2011
Restricted stock	\$ 208	\$ 471
Stock options	318	170
Total	\$ 526	\$ 641

	NINE MONTHS ENDED	
	September 30, 2012	September 30, 2011
Restricted stock	\$ 617	\$ 2,008
Stock options	697	495
Total	\$ 1,314	\$ 2,503

The fair value of unvested restricted stock awards is determined based on the market price of our shares of common stock on the grant date. As of September 30, 2012, there were 1,248 unvested stock options and unrecognized compensation cost of \$3,550 related to unvested stock options, as well as 750 unvested restricted stock awards and unrecognized compensation cost of \$123 related to unvested restricted stock awards.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal disputes and other legal proceedings that arise from time to time in the ordinary course of business. Based on currently available information, the Company does not believe that it is reasonably possible that the disposition of any of the legal disputes the Company or its subsidiaries is currently involved in will have a material adverse effect upon the Company's consolidated financial condition, results of operations or cash flows. It is possible that, as additional information becomes available, the impact on the Company could have a different effect.

The Company leases office, warehouse and distribution space under non-cancelable operating leases. As leases expire, it can be expected that, in the normal course of business, certain leases will be renewed or replaced. Certain lease agreements include escalating rents over the lease terms. The Company expenses rent on a straight-line basis over the lease term which commences on the date the Company has the right to control the property. The cumulative expense recognized on a straight-line basis in excess of the cumulative payments is included in accounts payable and accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

Total rent expense of the Company for the three months ended September 30, 2012 and 2011 was $546 and $357, respectively, and for the nine months ended September 30, 2012 and 2011 was $1,373 and $1,156, respectively.

On September 28, 2012, Gregory, a wholly owned subsidiary of the Company, entered into a definitive agreement (the “A&F Agreement”) to acquire Gregory’s Japanese distribution assets from Kabushiki Kaisha A&F (“A&F”).

As part of the terms of the A&F Agreement, the parties agreed to terminate their prior agreement and commencing on January 1, 2013, Gregory will acquire from A&F all responsibilities relating to the sale, marketing and distribution of Gregory’s products in Japan in exchange for the payment of $750 to A&F, of which $500 is payable on or before January 1, 2013, and $250 on or before December 31, 2013. Gregory has also agreed to purchase 100% of A&F’s then existing “in-line” inventory of Gregory products as of December 31, 2012, which is expected to be in the range of $650 to $750. The A&F Agreement also provides for certain other agreements and arrangements between the parties relating to the transition of the sales, marketing and distribution responsibilities to Gregory as well as certain understandings concerning A&F’s and Gregory’s relationship in the future.

The Company has not recognized revenue of $604 on inventory shipped during the three and nine months ended September 30, 2012 related to the agreement to purchase 100% of A&F’s then existing “in-line” inventory of Gregory products as of December 31, 2012.

NOTE 14. INCOME TAXES

The Company’s foreign operations that are considered to be permanently reinvested have an effective tax rate of approximately 25%.

As of December 31, 2011, the Company’s gross deferred tax asset was $92,251. The Company has recorded a valuation allowance, resulting in a net deferred tax asset of $73,747, excluding deferred tax liabilities. Management has provided a valuation allowance against some of the net deferred income tax assets as of December 31, 2011, because the ultimate realization of those benefits and assets does not meet the more likely than not criteria. During the three and nine months ended September 30, 2012, the Company reversed $530 of the Company’s valuation allowance on the Company’s deferred tax asset as it was determined to be more likely than not that the related deferred tax asset would be realized.

As of December 31, 2011, the Company had net operating loss, research and experimentation credit and alternative minimum tax credit carryforwards for U.S. federal income tax purposes of $217,822 ($725 relates to tax windfall, which will not be realized until an income tax payable exists), $1,693 and $261, respectively. The Company believes its U.S. Federal net operating loss (“NOL”) will substantially offset its future U.S. Federal income taxes, excluding the amount subject to U.S. Federal Alternative Minimum Tax (“AMT”). AMT is calculated as 20% of AMT income. For purposes of AMT, a maximum of 90% of income is offset by available NOLs. The majority of the Company’s pre-tax income is currently earned and expected to be earned in the U.S., or taxed in the U.S. as Subpart F. income and will be offset with the NOL.

(in thousands, except per share amounts)

Of the $217,097 of net operating losses available to offset taxable income, $215,538 does not expire until 2020 or later, subject to compliance with Section 382 of the Internal Revenue Code, as amended (the "Code") as indicated by the following schedule:

Net Operating Loss Carryforward Expiration Dates
December 31, 2011

	Expiration Dates December 31,	Net Operating Loss Amount
	2012	$ 1,559
	2020	29,533
	2021	50,430
	2022	115,000
	2023	5,712
	2024	3,566
	2025	1,707
	2026	476
	2028	1,360
	2029	4,074
	2030	4,405
Total		217,822
Tax windfall		(725)
After limitations		$ 217,097

NOTE 15. RELATED PARTY TRANSACTIONS

Kanders & Company, Inc.

In September 2003, the Company and Kanders & Company, Inc. ("Kanders & Company"), an entity owned and controlled by the Company's Executive Chairman, Warren B. Kanders, entered into a 15-year lease with a five-year renewal option, as co-tenants with Kanders & Company to lease approximately 11,500 square feet in Stamford, Connecticut. Until May 28, 2010, the Company paid $32 a month for its 75% portion of the lease, Kanders & Company paid $11 a month for its 25% portion of the lease and rent expense was recognized on a straight-line basis. The lease provides the co-tenants with an option to terminate the lease in years eight and ten in consideration for a termination payment. In connection with the lease, the Company obtained a stand-by letter of credit in the amount of $850 to secure lease obligations for the Stamford facility and Kanders & Company reimbursed the Company for a pro rata portion of the approximately $5 annual cost of the letter of credit. As of September 30, 2012, the stand-by letter of credit of $850 was reduced to $225.

As of September 30, 2012 and December 31, 2011, the Company had no amounts outstanding to Kanders & Company.

Acquisition of Gregory Mountain Products, Inc.

On May 28, 2010, the Company acquired Gregory pursuant to a certain Agreement and Plan of Merger, dated as of May 7, 2010, from each of Kanders GMP Holdings, LLC and Schiller Gregory Investment Company, LLC, as the stockholders of Gregory (the "Gregory Stockholders"). Mr. Warren B. Kanders, the Company's Executive Chairman and a member of its Board of Directors, is a majority member and a trustee of the manager of Kanders GMP Holdings, LLC. The sole manager of Schiller Gregory Investment Company, LLC is Mr. Robert R. Schiller, the Company's Executive Vice Chairman and a member of its Board of Directors. In the acquisition of Gregory, the Company acquired all of the outstanding common stock of Gregory for an aggregate amount of approximately $44,100 (after closing adjustments of $889 relating to debt repayments, working capital and equity plan allocation), payable to the Gregory Stockholders in proportion to their respective ownership interests of Gregory as follows: (i) the issuance of 2,419 unregistered shares of the Company's common stock to Kanders GMP Holdings, LLC and 1,256 unregistered shares of the Company's common stock to Schiller Gregory Investment Company, LLC, and (ii) the issuance by the Company of Merger Consideration Subordinated Notes in the aggregate principal amount of $14,517 to Kanders GMP Holdings, LLC and in the aggregate principal amount of $7,539 to Schiller Gregory Investment Company, LLC. The principal amounts due under the outstanding Merger Consideration Subordinated Notes are due and payable on May 28, 2017 and are prepayable by the Company at anytime. Interest accrues on the principal amount of the outstanding Merger Consideration Subordinated Notes at the rate of 5% per annum and are payable quarterly in cash. The acquisition of Gregory was approved by a special committee comprised of independent directors of the Company's Board of Directors and the merger consideration payable to the Gregory Stockholders was confirmed to be fair to the Company's stockholders from a financial point of view by a fairness opinion received from Ladenburg Thalmann & Co., Inc.

On April 7, 2011, Schiller Gregory Investment Company, LLC transferred its Merger Consideration Subordinated Note in equal amounts to the Robert R. Schiller Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust. During the three and nine months ended September 30, 2012, $183 and $547 in interest was paid to Kanders GMP Holdings, LLC, respectively, and $95 and $284, respectively, in interest was paid to the Robert R. Schiller Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust pursuant to the outstanding Merger Consideration Subordinated Notes.

Public Offering

On February 22, 2012, certain of the Company's officers, directors and employees, including Messrs. Kanders, Schiller, Peter R. Metcalf, Nicholas Sokolow and Philip N. Duff, purchased an aggregate of 1,333 shares of common stock sold by the Company in the Offering of 8,913 shares of common stock at a price of $7.50 per share. The last reported sale price of the Company's common stock on February 15, 2012 prior to pricing of the Offering was $8.01 per share.

5% Unsecured Subordinated Notes due May 28, 2017

On May 29, 2012 and August 13, 2012, five former employees of Gregory exercised certain sales rights and sold the Company's outstanding 5% Unsecured Subordinated Notes due May 28, 2017 (the "Gregory Subordinated Notes") in the aggregate principal amount of approximately $365 to Kanders GMP Holdings, LLC and in the aggregate principal amount of approximately $189 to Schiller Gregory Investment Company, LLC. The principal amounts due under the outstanding Gregory Subordinated Notes are due and payable on May 28, 2017 and are prepayable by the Company at anytime. Interest accrues on the principal amount of the outstanding Gregory Subordinated Notes at the rate of 5% per annum and are payable quarterly in cash.

NOTE 16. SUBSEQUENT EVENT

Acquisition of PIEPS Holding GmbH

On October 1, 2012, the Company acquired all of the issued and outstanding shares of capital stock of PIEPS Holding GmbH and its subsidiaries PIEPS GmbH and Pieps Corporation (collectively, "PIEPS"), a leading Austrian designer and marketer of avalanche beacons and snow safety products pursuant to the terms of the Share Purchase Agreement (the "PIEPS Agreement") dated as of September 24, 2012, by and among the Company, ADMIN BG Holding GmbH (to be renamed Black Diamond Austria GmbH "BD Austria"), an Austrian corporation and a wholly owned subsidiary of the Company, and the Seidel Privatstiftung (the "Seller"). Under the terms of the PIEPS Agreement, the Company acquired PIEPS for a total consideration valued at 8,000 Euros (EUR) or approximately $10,300 in cash and assumed approximately 2,100 EUR or $2,700 in debt. The Company has also committed up to an additional 2,300 EUR or approximately $3,000 of contingent purchase price upon PIEPS' achievement of certain sales targets between April 1, 2012 and March 31, 2015, which may be paid at the Company's discretion in cash, shares of the Company's common stock, or a combination of cash and such shares.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are made based on our expectations and beliefs concerning future events impacting Black Diamond, Inc. ("Black Diamond" or the "Company," which may be referred to as "we," "us," or "our") and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements. Potential risks and uncertainties that could cause the actual results of operations or financial condition of the Company to differ materially from those expressed or implied by forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, the overall level of consumer spending on our products; general economic conditions and other factors affecting consumer confidence; disruption and volatility in the global capital and credit markets; the financial strength of the Company's customers; the Company's ability to implement its growth strategy; the Company's ability to successfully integrate and grow acquisitions; the Company's ability to maintain the strength and security of its information technology systems; stability of the Company's manufacturing facilities and foreign suppliers; the Company's ability to protect trademarks and other intellectual property rights; fluctuations in the price, availability and quality of raw materials and contracted products; foreign currency fluctuations; our ability to utilize our net operating loss carryforwards; and legal, regulatory, political and economic risks in international markets. More information on potential factors that could affect the Company's financial results is included from time to time in the Company's public reports filed with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. All forward-looking statements included in this Quarterly Report on Form 10-Q are based upon information available to the Company as of the date of this Quarterly Report on Form 10-Q, and speak only as the date hereof. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

Overview

Black Diamond is a global leader in designing, manufacturing and marketing innovative active outdoor performance products for climbing, mountaineering, backpacking, skiing, cycling and other outdoor recreation activities for a wide range of year-round use. Our principal brands include Black Diamond®, Gregory™, POC™ and PIEPS™ through which we target the demanding requirements of core climbers, skiers and cyclers, more general outdoor performance enthusiasts and consumers interested in outdoor-inspired gear for their urban activities. Our Black Diamond®, Gregory™, POC™ and PIEPS™ brands are iconic in the active outdoor industry and are linked intrinsically with the modern history of the sports we serve. We believe our brands are synonymous with performance, innovation, durability and safety that the outdoor and action sport communities rely on and embrace in their active lifestyle.

Critical Accounting Policies and Use of Estimates

Management's discussion of financial condition and results of operations is based on the consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these condensed consolidated financial statements require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. We continually evaluate our estimates and assumptions including those related to derivatives, revenue recognition, income taxes, stock-based compensation, and valuation of long-lived assets, goodwill, and other intangible assets. We base our estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

There have been no significant changes to our critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

Recent Accounting Pronouncements

See "Recent Accounting Pronouncements" in Note 1 to the notes to the unaudited condensed consolidated financial statements.

(in thousands, except per share amounts)

Results of Operations

Consolidated Three Months Ended September 30, 2012 Compared to Consolidated Three Months Ended September 30, 2011

The following presents a discussion of consolidated operations for the three months ended September 30, 2012, compared with the consolidated three months ended September 30, 2011.

	THREE MONTHS ENDED	
	September 30, 2012	September 30, 2011
Sales		
Domestic sales	$ 19,128	$ 15,868
International sales	29,614	26,172
Total sales	48,742	42,040
Cost of goods sold	30,283	26,043
Gross profit	18,459	15,997
Operating expenses		
Selling, general and administrative	16,347	12,824
Restructuring charge	86	219
Merger and integration	76	-
Transaction costs	415	-
Total operating expenses	16,924	13,043
Operating income	1,535	2,954
Other (expense) income		
Interest expense	(722)	(720)
Interest income	9	5
Other, net	521	(702)
Total other expense, net	(192)	(1,417)
Income before income tax	1,343	1,537
Income tax expense	617	530
Net income	$ 726	$ 1,007

Sales

Consolidated sales increased $6,702, or 15.9%, to $48,742 during the three months ended September 30, 2012 compared to consolidated sales of $42,040 during the three months ended September 30, 2011. The increase in sales was primarily attributable to the inclusion of POC Sweden AB and its subsidiaries (collectively, “POC”). This increase was partially off-set by a decrease in sales of $1,314 due to the weakening of foreign currencies against the U.S. dollar and not recognizing revenue of $604 on inventory shipped to the Company’s Gregory Mountain Products, LLC (“Gregory” or “GMP”) Japanese distributor, as the inventory will be repurchased in accordance with the terms of the definitive agreement (the “A&F Agreement”) entered into on September 28, 2012, by and between Gregory and Kabushiki Kaisha A&F (“A&F”).

Consolidated domestic sales increased $3,260, or 20.5%, to $19,128 during the three months ended September 30, 2012 compared to consolidated domestic sales of $15,868 during the three months ended September 30, 2011. The increase in domestic sales was primarily attributable to the inclusion of POC and an increase in the quantity of new and existing climb and mountain products sold during the period.

Consolidated international sales increased $3,442, or 13.2%, to $29,614 during the three months ended September 30, 2012 compared to consolidated international sales of $26,172 during the three months ended September 30, 2011. The increase in international sales was primarily attributable to the inclusion of POC. This increase was partially off-set by a decrease in sales of $1,314 due to the weakening of foreign currencies against the U.S. dollar and not recognizing revenue of $604 on inventory shipped to the Company's GMP Japanese distributor, as the inventory will be repurchased in accordance with the terms of the A&F Agreement.

Cost of Goods Sold

Consolidated cost of goods sold increased $4,240, or 16.3%, to $30,283 during the three months ended September 30, 2012 compared to consolidated cost of goods sold of $26,043 during the three months ended September 30, 2011. The increase in cost of goods sold was primarily attributable to the inclusion of POC and $1,094 related to the sale of inventory that was recorded at fair value in purchase accounting; the remaining amount of inventory that was recorded at fair value in purchase accounting is expected to be sold during the fourth quarter.

Gross Profit

Consolidated gross profit increased $2,462, or 15.4%, to $18,459 during the three months ended September 30, 2012 compared to consolidated gross profit of $15,997 during the three months ended September 30, 2011. Consolidated gross margin was 37.9% during the three months ended September 30, 2012 compared to a consolidated gross margin of 38.1% during the three months ended September 30, 2011, which gross margins were consistent with one another. Consolidated gross margin during the three months ended September 30, 2012 increased compared to the prior year due to the inclusion of POC; however, it was off-set by a decrease in gross margin of 2.2% due to the sale of inventory that was recorded at fair value in purchase accounting.

Selling, General and Administrative

Consolidated selling, general and administrative expenses increased $3,523, or 27.5%, to $16,347 during the three months ended September 30, 2012 compared to consolidated selling, general and administrative expenses of $12,824 during the three months ended September 30, 2011. The increase in selling, general and administrative expenses was primarily attributable to the inclusion of POC and the Company's investments in its strategic initiatives and infrastructure to support both current and anticipated future growth.

Restructuring Charges

Consolidated restructuring expense decreased $133, or 60.7%, to $86 during the three months ended September 30, 2012 compared to consolidated restructuring expense of $219 during the three months ended September 30, 2011. The restructuring expenses incurred during the three months ended September 30, 2012 relate to severance benefits provided to GMP employees at its Calexico, CA facility and to certain POC employees at its Portsmouth, NH office. The restructuring expenses incurred during the three months ended September 30, 2011 also include termination costs of GMP's office lease in Sacramento, CA.

Merger and Integration Costs

Consolidated merger and integration expense increased to $76 during the three months ended September 30, 2012 compared to consolidated merger and integration expense of $0 during the same period in 2011, which consisted primarily of expenses related to the integration of POC. We expect to incur additional merger and integration expenses in the fourth quarter related to the integration of current acquisitions.

Transaction Costs

Consolidated transaction expense increased to $415 during the three months ended September 30, 2012 compared to consolidated transaction expense of $0 during the same period in 2011, which consisted primarily of professional fees and expenses related to due diligence and the negotiation and documentation of acquisition related agreements in connection with the Company's acquisition of PIEPS Holding GmbH and its subsidiaries (collectively, "PIEPS") on October 1, 2012.

Interest Expense

Consolidated interest expense increased $2, or 0.3%, to $722 during the three months ended September 30, 2012 compared to consolidated interest expense of $720 during the three months ended September 30, 2011, which interest expenses were consistent with one another.

Other, net

Consolidated other, net increased to income of $521 during the three months ended September 30, 2012 compared to a consolidated other, net expense of $702 during the three months ended September 30, 2011. The increase in other, net was primarily attributable to the remeasurement gains recognized on the Company's foreign denominated accounts receivable and accounts payable and mark-to-market adjustments on non-hedged foreign currency contracts.

Income Taxes

Consolidated income tax expense increased $87, or 16.4%, to $617 during the three months ended September 30, 2012 compared to a consolidated income tax expense of $530 during the same period in 2011. The increase in tax expense is due to the increase in the effective income tax rate recorded during the three months ended September 30, 2012, which is primarily the result of non-deductible transaction costs. During the three months ended September 30, 2012, the Company reversed $530 of the Company's valuation allowance on the Company's deferred tax asset.

Our effective income tax rate was 45.9% for the three months ended September 30, 2012 compared to 34.5% for the same period in 2011. Many factors could cause our annual effective tax rate to differ materially from our quarterly effective tax rates, including changes in the geographic mix of taxable income and discrete events that may occur in various quarters. There were no meaningful discrete events recorded in the Company's effective income tax rate calculation for the three months ended September 30, 2012.

(in thousands, except per share amounts)

Consolidated Nine Months Ended September 30, 2012 Compared to Consolidated Nine Months Ended September 30, 2011

The following presents a discussion of consolidated operations for the nine months ended September 30, 2012, compared with the consolidated nine months ended September 30, 2011.

	NINE MONTHS ENDED	
	September 30, 2012	September 30, 2011
Sales		
Domestic sales	$ 53,569	$ 44,670
International sales	73,507	64,766
Total sales	127,076	109,436
Cost of goods sold	77,535	67,333
Gross profit	49,541	42,103
Operating expenses		
Selling, general and administrative	43,441	37,084
Restructuring charge	86	993
Merger and integration	76	-
Transaction costs	1,665	-
Total operating expenses	45,268	38,077
Operating income	4,273	4,026
Other (expense) income		
Interest expense	(2,068)	(2,157)
Interest income	43	31
Other, net	616	145
Total other expense, net	(1,409)	(1,981)
Income before income tax	2,864	2,045
Income tax expense	1,456	681
Net income	$ 1,408	$ 1,364

Sales

Consolidated sales increased $17,640, or 16.1%, to $127,076 during the nine months ended September 30, 2012 compared to consolidated sales of $109,436 during the nine months ended September 30, 2011. The increase in sales was attributable to an increase in the quantity and average sales price per unit of new and existing climb and mountain products sold during the period and the inclusion of POC. This increase was partially off-set by a decrease in sales of $2,628 due to the weakening of foreign currencies against the U.S. dollar and not recognizing revenue of $604 on inventory shipped to the Company’s GMP Japanese distributor during the three months ended September 30, 2012, as the inventory will be repurchased in accordance with the terms of the A&F Agreement.

Consolidated domestic sales increased $8,899, or 19.9%, to $53,569 during the nine months ended September 30, 2012 compared to consolidated domestic sales of $44,670 during the nine months ended September 30, 2011. The increase in domestic sales was primarily attributable to an increase in the quantity of new and existing climb and mountain products sold during the period and the inclusion of POC.

Consolidated international sales increased $8,741, or 13.5%, to $73,507 during the nine months ended September 30, 2012 compared to consolidated international sales of $64,766 during the nine months ended September 30, 2011. The increase in international sales was primarily attributable to an increase in the quantity and average sales price per unit of new and existing climb and mountain products sold during the period and the inclusion of POC. This increase was partially off-set by a decrease in sales of $2,628 due to the weakening of foreign currencies against the U.S. dollar and not recognizing revenue of $604 on inventory shipped to the Company's GMP Japanese distributor during the three months ended September 30, 2012, as the inventory will be repurchased in accordance with the terms of the A&F Agreement.

Cost of Goods Sold

Consolidated cost of goods sold increased $10,202, or 15.2%, to $77,535 during the nine months ended September 30, 2012 compared to consolidated cost of goods sold of $67,333 during the nine months ended September 30, 2011. The increase in cost of goods sold was primarily attributable to an increase in sales both organically and from the inclusion of POC and $1,094 related to the sale of inventory that was recorded at fair value in purchase accounting; the remaining amount of inventory that was recorded at fair value in purchase accounting is expected to be sold during the fourth quarter.

Gross Profit

Consolidated gross profit increased $7,438, or 17.7%, to $49,541 during the nine months ended September 30, 2012 compared to consolidated gross profit of $42,103 during the nine months ended September 30, 2011. Consolidated gross margin was 39.0% during the nine months ended September 30, 2012 compared to a consolidated gross margin of 38.5% during the nine months ended September 30, 2011. The increase in gross margin percentage is primarily driven by the mix of product sold and distribution channel in which it was sold during 2012 compared to 2011. Consolidated gross margin during the nine months ended September 30, 2012 increased compared to the prior year due to the inclusion of POC; however, it was off-set by a decrease in gross margin of 0.8% due to the sale of inventory that was recorded at fair value in purchase accounting.

Selling, General and Administrative

Consolidated selling, general and administrative expenses increased $6,357, or 17.1%, to $43,441 during the nine months ended September 30, 2012 compared to consolidated selling, general and administrative expenses of $37,084 during the nine months ended September 30, 2011. The increase in selling, general and administrative expenses was primarily attributable to the Company's investments in its strategic initiatives and infrastructure to support both current and anticipated future growth and the inclusion of POC.

Restructuring Charge

Consolidated restructuring expenses decreased $907, or 91.3%, to $86 during the nine months ended September 30, 2012 compared to consolidated restructuring expense of $993 during the nine months ended September 30, 2011. The restructuring expenses incurred during the nine months ended September 30, 2012 relate to severance benefits provided to GMP employees at its Calexico, CA facility and to certain POC employees at its Portsmouth, NH office. The restructuring expenses incurred during the nine months ended September 30, 2011 comprised of: (i) $781 related to the relocation of GMP to the Company's headquarters, and (ii) $212 related to the disposal of long-lived assets in conjunction with the relocation of the Company's U.S. distribution facilities in Salt Lake City, UT to a new location in Salt Lake City, UT as part of integrating GMP.

Merger and Integration Costs

Consolidated merger and integration expense increased to $76 during the nine months ended September 30, 2012 compared to consolidated merger and integration expense of $0 during the same period in 2011, which consisted primarily of expenses related to the integration of POC. We expect to incur additional merger and integration expenses in the fourth quarter related to the integration of current acquisitions.

Transaction Costs

Consolidated transaction expense increased to $1,665 during the nine months ended September 30, 2012 compared to consolidated transaction expense of $0 during the same period in 2011, which consisted primarily of professional fees and expenses related to due diligence and the negotiation and documentation of acquisition related agreements in connection with the Company's acquisition of POC on July 2, 2012 and PIEPS on October 1, 2012.

(in thousands, except per share amounts)

Interest Expense

Consolidated interest expense decreased $89, or 4.1%, to $2,068 during the nine months ended September 30, 2012 compared to consolidated interest expense of $2,157 during the nine months ended September 30, 2011. The decrease in interest expense was primarily attributable to lower average balances outstanding on the Company's line of credit during the nine months ended September 30, 2012 compared to the same period in 2011.

Other, net

Consolidated other, net increased to income of $616 during the nine months ended September 30, 2012 compared to consolidated other, net income of $145 during the nine months ended September 30, 2011. The increase in other, net was primarily attributable to the remeasurement gains recognized on the Company's foreign denominated accounts receivable and accounts payable and mark-to-market adjustments on non-hedged foreign currency contracts.

Income Taxes

Consolidated income tax expense increased $775, or 113.8%, to $1,456 during the nine months ended September 30, 2012 compared to a consolidated income tax expense of $681 during the same period in 2011. The increase in tax expense is due to the increase in pre-tax income and the change in the effective income tax rate compared to the nine months ended September 30, 2011, which is primarily the result of non-deductible transaction costs. During the nine months ended September 30, 2012, the Company reversed $530 of the Company's valuation allowance on the Company's deferred tax asset.

Our effective income tax rate was 50.8% for the nine months ended September 30, 2012 compared to 33.3% for the same period in 2011. Many factors could cause our annual effective tax rate to differ materially from our quarterly effective tax rates, including changes in the geographic mix of taxable income and discrete events that may occur in various quarters. There were no meaningful discrete events recorded in the Company's effective income tax rate calculation for the nine months ended September 30, 2012.

Liquidity and Capital Resources

Consolidated Nine months ended September 30, 2012 Compared to Consolidated Nine months ended September 30, 2011

The following presents a discussion of cash flows for the consolidated nine months ended September 30, 2012, compared with the consolidated nine months ended September 30, 2011. Our primary ongoing funding requirements are for working capital, expansion of our operations and general corporate needs, as well as investing activities associated with targeted, strategic acquisitions and expansion into new product categories. We plan to fund our future expansion of operations and investing activities through a combination of our operating cash flows, revolving credit facility, and equity offerings. We believe that our liquidity requirements for at least the next 12 months will be adequately covered by existing cash, cash provided by operations, and our existing revolving credit facility. At September 30, 2012, we had total cash and cash equivalents of $14,287 compared with a cash and cash equivalents balance of $2,400 at December 31, 2011 – which was substantially all controlled by the Company's U.S. entities.

	NINE MONTHS ENDED	
	September 30, 2012	September 30, 2011
Net cash used in operating activities	$ (8,492)	$ (8,883)
Net cash used in investing activities	(43,732)	(2,457)
Net cash provided by financing activities	64,149	10,105
Effect of foreign exchange rates on cash	(38)	145
Change in cash and cash equivalents	11,887	(1,090)
Cash and cash equivalents, beginning of period	2,400	2,767
Cash and cash equivalents, end of period	$ 14,287	$ 1,677

(in thousands, except per share amounts)

Net Cash From Operating Activities

Consolidated net cash used in operating activities was $8,492 during the nine months ended September 30, 2012 compared to consolidated net cash used in operating activities of $8,883 during the nine months ended September 30, 2011. The decrease in net cash used in operating activities during 2012 is primarily due to timing differences of when accounts receivable were collected, inventory purchased, and accounts payable were paid during the nine months ended September 30, 2012 compared to the same period in 2011. Consolidated net cash used during the nine months ended September 30, 2012 was also negatively impacted by the inclusion of $1,665 of transaction expenses relating to the acquisitions of POC and PIEPS, the increase in inventory sold of $1,094 due to the step-up in fair value in purchase accounting, $76 in merger and integration charges related to the acquisition of POC, partially off-set by the decrease in restructuring charges of $907.

Free cash flow, defined as net cash provided by operating activities less capital expenditures, was free cash flows used of $12,129 during the nine months ended September 30, 2012 compared to free cash flows used of $11,370 during the same period in 2011. The Company believes that the non-GAAP measure, free cash flow, provides an understanding of the capital required by the Company to expand its asset base. A reconciliation of free cash flows to comparable GAAP financial measures is set forth below:

	NINE MONTHS ENDED	
	September 30, 2012	September 30, 2011
Net cash used in operating activities	$ (8,492)	$ (8,883)
Purchase of property and equipment	(3,637)	(2,487)
Free cash flow	$ (12,129)	$ (11,370)

Net Cash From Investing Activities

Consolidated net cash used in investing activities increased by $41,275 to $43,732 during the nine months ended September 30, 2012 compared to $2,457 during the nine months ended September 30, 2011. The increase is primarily due to the $40,128 used for the purchase of POC, net of cash acquired, with the remaining increase due to the increase in capital expenditures. The increase in capital expenditures is due to certain machinery and equipment and computer hardware and software capital expenditures that were incurred during the nine months ended September 30, 2012 that were not incurred during the same period in 2011. Subsequent to quarter-end, the Company acquired PIEPS for a total consideration valued at 8,000 Euros (EUR) or approximately $10,300 in cash and assumed approximately 2,100 EUR or $2,700 in debt.

Net Cash From Financing Activities

Consolidated net cash provided by financing activities increased by $54,044 to $64,149 during the nine months ended September 30, 2012 compared to consolidated cash provided by financing activities of $10,105 during the nine months ended September 30, 2011. The increase is due to the proceeds from the sale of stock and proceeds from the exercise of stock options $62,562 and $569, respectively, as well as net proceeds from borrowings on the Company's debt (line of credit, capital leases, and other long-term debt) of $1,018 compared to proceeds from the exercise of stock options of $151 and net proceeds from borrowings of $9,954 during the same period in 2011. On February 22, 2012, the Company closed a public offering for 8,913 shares of its common stock, realizing net proceeds of $63,400 before expenses.

Net Operating Loss

As of December 31, 2011, the Company had net operating loss, research and experimentation credit and alternative minimum tax credit carryforwards for U.S. federal income tax purposes of $217,822 ($725 relates to tax windfall, which will not be realized until an income tax payable exists), $1,693 and $261, respectively. The Company believes its U.S. Federal net operating loss ("NOL") will substantially offset its future U.S. Federal income taxes, excluding the amount subject to U.S. Federal Alternative Minimum Tax ("AMT"). AMT is calculated as 20% of AMT income. For purposes of AMT, a maximum of 90% of income is offset by available NOLs. The majority of the Company's pre-tax income is currently earned and expected to be earned in the U.S., or taxed in the U.S. as Subpart F. income and will be offset with the NOL. Of the $217,097 of net operating losses available to offset taxable income, $215,538 does not expire until 2020 or later, subject to compliance with Section 382 of the Internal Revenue Code of 1986, as amended.

As of December 31, 2011, the Company's gross deferred tax asset was $92,251. The Company has recorded a valuation allowance, resulting in a net deferred tax asset of $73,747, excluding deferred tax liabilities. Management has provided a valuation allowance against some of the net deferred income tax assets as of December 31, 2011, because the ultimate realization of those benefits and assets does not meet the more likely than not criteria.

Revolving Credit Facility

The Company and certain of its subsidiaries have a loan agreement with Zions First National Bank, a national banking association ("Lender") (the "Loan Agreement"). Pursuant to the terms of the Loan Agreement, the Lender has made available a $35,000 unsecured revolving credit facility (the "Loan"). The Loan matures on July 2, 2013. The Loan may be prepaid or terminated at the Company's option at anytime without penalty. No amortization is required. Any outstanding principal balance together with any accrued but unpaid interest or fees will be due in full at maturity. The Loan bears interest at the 90-day LIBOR rate plus an applicable margin as determined by the ratio of Senior Net Debt (as calculated in the Loan Agreement) to Trailing Twelve Month EBITDA (as calculated in the Loan Agreement). As of September 30, 2012, there was $22,845 outstanding and $12,155 available capacity. There were no outstanding letters of credit.

On September 28, 2012, POC USA, LLC ("POC USA"), a Delaware limited liability company and wholly owned subsidiary of Black Diamond, entered into an assumption agreement (the "Assumption Agreement") and a substitute promissory note (the "Second Substitute Promissory Note") pursuant to which POC USA became an additional borrower under the loan agreement (the "Loan Agreement") dated May 28, 2010, as amended from time to time, by and among Zions First National Bank, a national banking association, and Black Diamond, Black Diamond Equipment, Ltd., Black Diamond Retail, Inc., Everest/Sapphire Acquisition, LLC, and Gregory.

On October 4, 2012, Pieps Corporation, a California corporation, and BD European Holdings, LLC, a Delaware limited liability company, each a wholly owned subsidiary of Black Diamond, also entered into an Assumption Agreement and a substitute promissory note (the "Third Substitute Promissory Note") pursuant to which each of Pieps Corporation and BD European Holdings, LLC became an additional borrower under the Loan Agreement.

The terms of the Loan Agreement, except as described above, remain unchanged.

5% Senior Subordinated Notes due May 28, 2017

As part of the consideration payable to the Stockholders of GMP when the Company acquired GMP, the Company issued $22,056 and $554 in 5% seven year subordinated promissory notes dated May 28, 2010 (the "Merger Consideration Subordinated Notes") to Kanders GMP Holdings, LLC and Schiller Gregory Investment Company, LLC, respectively. Mr. Warren B. Kanders, the Company's Executive Chairman and a member of its Board of Directors, is a majority member and a trustee of the manager of Kanders GMP Holdings, LLC. The sole manager of Schiller Gregory Investment Company, LLC is Mr. Robert R. Schiller, the Company's Executive Vice Chairman and a member of its Board of Directors. The principle terms of the Merger Consideration Subordinated Notes are as follows: (i) the principal amount is due and payable on May 28, 2017 and is prepayable by the Company at anytime; (ii) interest will accrue on the principal amount at the rate of 5% per annum and shall be payable quarterly in cash; (iii) the default interest rate shall accrue at the rate of 10% per annum during the occurrence of an event of default; and (iv) events of default, which can only be triggered with the consent of Kanders GMP Holdings, LLC, are: (a) the default by the Company on any payment due under a Merger Consideration Subordinated Note; (b) the Company's failure to perform or observe any other material covenant or agreement contained in the Merger Consideration Subordinated Notes; or (c) the Company's instituting or becoming subject to a proceeding under the Bankruptcy Code. The Merger Consideration Subordinated Notes are junior to all senior indebtedness of the Company, except that payments of interest continue to be made under the Merger Consideration Subordinated Notes as long as no event of default exists under any senior indebtedness. Additionally, an uncured event of default under the Merger Consideration Subordinated Notes may result in an event of default under the Loan Agreement discussed above.

Given the below market interest rate for comparably secured notes and the relative illiquidity of the notes, we have discounted the notes to $13,127 and $316, respectively, at the date of acquisition. We will accrete the discount on the notes to interest expense using the effective interest method over the term of the notes.

On April 7, 2011, Schiller Gregory Investment Company, LLC transferred its Merger Consideration Subordinated Note in equal amounts to the Robert R. Schiller Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust. During the three and nine months ended September 30, 2012, $183 and $547 in interest was paid to Kanders GMP Holdings, LLC, respectively, and $95 and $284, respectively, in interest was paid to the Robert R. Schiller Cornerstone Trust and the Deborah Schiller 2005 Revocable Trust pursuant to the outstanding Merger Consideration Subordinated Notes.

On May 29, 2012 and August 13, 2012, five former employees of Gregory exercised certain sales rights and sold the Company's outstanding 5% Unsecured Subordinated Notes due May 28, 2017 (the "Gregory Subordinated Notes") in the aggregate principal amount of approximately $365 to Kanders GMP Holdings, LLC and in the aggregate principal amount of approximately $189 to Schiller Gregory Investment Company, LLC. The principal amounts due under the outstanding Gregory Subordinated Notes are due and payable on May 28, 2017 and are prepayable by the Company at anytime. Interest accrues on the principal amount of the outstanding Gregory Subordinated Notes at the rate of 5% per annum and are payable quarterly in cash.

Shelf Registration Statements

On February 1, 2011, our shelf registration statement on Form S-3 (File No. 333-171164) (the "Form S-3") filed with the Securities and Exchange Commission was declared effective whereby we may offer, issue and sell from time to time, in one or more offerings and series, together or separately, shares of common stock, shares of preferred stock, debt securities or guarantees of debt securities up to an aggregate amount of $250,000. The proceeds of any offering are anticipated to be used in the strategic development and growth of our business, both organically and through acquisitions.

On February 22, 2012, we consummated the closing of a public offering (the "Offering") of 7,750 shares of the Company's common stock, plus an additional 1,163 shares of common stock to cover an over-allotment option granted to the underwriters, at a price to the public of $7.50 per share (the "Offering Price"). Included in the total number of shares of common stock sold in the Offering were 1,333 shares of common stock purchased at the Offering Price by certain of the Company's officers, directors and employees (the "Reserved Shares"). The Reserved Shares were subject to lock-up agreements restricting the sales of such shares for a period of 90 days, subject to extension under certain circumstances. The underwriters received an underwriting discount of 6%, or $0.45 per share, in connection with the sale of the shares of common stock in the Offering, other than with respect to the sale of the Reserved Shares, for which the underwriters did not receive any underwriting discount. The underwriters exercised the over-allotment option in full at the closing of the Offering. The net proceeds to the Company from the Offering, before expenses, were approximately $63,400. The common stock was offered and sold pursuant to a prospectus dated February 1, 2011, a preliminary prospectus supplement filed with the Securities and Exchange Commission on February 15, 2012 and a prospectus supplement filed with the Securities and Exchange Commission on February 17, 2012, in connection with a takedown from the Company's Form S-3. After the Offering, we may offer, issue and sell, from time to time, in one or more offerings and series, together or separately, shares of our common stock, shares of our preferred stock, debt securities or guarantees of debt securities up to an aggregate amount of $183,156 pursuant to the Form S-3.

On August 19, 2011, our shelf registration statement on Form S-4 (File No. 333-175695) (the "Form S-4") filed with the Securities and Exchange Commission was declared effective whereby we may issue an aggregate of 5,750 shares of common stock, which may be issued from time to time by the Company in connection with acquisitions by the Company of assets, businesses or securities.

Off-Balance Sheet Arrangements

We do not engage in any transactions or have relationships or other arrangements with unconsolidated entities. These include special purpose and similar entities or other off-balance sheet arrangements. We also do not engage in energy, weather or other commodity-based contracts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has not been any material change in the market risk disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, its principal executive officer and principal financial officer, respectively, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of September 30, 2012, pursuant to Exchange Act Rule 13a-15. Such disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the appropriate management on a basis that permits timely decisions regarding disclosure. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2012 are effective.

Changes in Internal Control over Financial Reporting

On July 2, 2012, the Company acquired POC. Because POC utilizes separate information and accounting systems, the Company has implemented changes to its internal controls over financial reporting to include the consolidation of POC, as well as acquisition-related accounting and disclosures. The acquisition of POC represents a material change in internal control over financial reporting since management's last assessment of the Company's internal control over financial reporting, which was completed as of December 31, 2011.

The Company's management is reviewing and evaluating its internal control procedures and the design of those control procedures related to the POC acquisition and evaluating when it will complete an evaluation and review of POC's internal controls over financial reporting.

Except as described above, there have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Legal Proceedings

The Company is involved in various legal disputes and other legal proceedings that arise from time to time in the ordinary course of business. Based on currently available information, the Company does not believe that it is reasonably possible that the disposition of any of the legal disputes the Company or its subsidiaries is currently involved in will have a material adverse effect upon the Company's consolidated financial condition, results of operations or cash flows. It is possible that, as additional information becomes available, the impact on the Company could have a different effect.

Litigation

The Company is involved in various lawsuits arising from time to time that the Company considers ordinary routine litigation incidental to its business. Amounts accrued for litigation matters represent the anticipated costs (damages and/or settlement amounts) in connection with pending litigation and claims and related anticipated legal fees for defending such actions. The costs are accrued when it is both probable that a liability has been incurred and the amount can be reasonably estimated. The accruals are based upon the Company's assessment, after consultation with counsel (if deemed appropriate), of probable loss based on the facts and circumstances of each case, the legal issues involved, the nature of the claim made, the nature of the damages sought and any relevant information about the plaintiffs and other significant factors that vary by case. When it is not possible to estimate a specific expected cost to be incurred, the Company evaluates the range of probable loss and records the minimum end of the range. Based on current information, the Company believes that the ultimate conclusion of the various pending litigations of the Company, in the aggregate, will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Product Liability

As a consumer goods manufacturer and distributor, the Company faces the risk of product liability and related lawsuits involving claims for substantial money damages, product recall actions and higher than anticipated rates of warranty returns or other returns of goods. The Company is therefore vulnerable to various personal injury and property damage lawsuits relating to its products and incidental to its business.

Based on current information, there are no pending product liability claims and lawsuits of the Company, which the Company believes in the aggregate will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 6. EXHIBITS

Exhibit	Description
10.1	Share Purchase Agreement dated September 24, 2012, by and among Black Diamond Austria GmbH and SEIDEL Privatstiftung (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 28, 2012 and incorporated herein by reference).
10.2	Agreement, dated September 28, 2012, by and between Gregory Mountain Products and Kabushiki Kaisha A&F (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 4, 2012 and incorporated herein by reference).
10.3	Assumption Agreement, dated September 28, 2012, by and between Zions First National Bank, a national banking association and POC USA, LLC (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 4, 2012 and incorporated herein by reference).
10.4	Second Substitute Promissory Note, dated September 28, 2012, by and among Zions First National Bank, a national banking association, Black Diamond, Inc., Black Diamond Equipment Ltd., Black Diamond Retail, Inc., Everest/Sapphire Acquisition, LLC, Gregory Mountain Products, LLC and POC USA, LLC, as co-borrowers (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 4, 2012 and incorporated herein by reference).
10.5	Assumption Agreement, dated October 4, 2012, by and between Zions First National Bank, a national banking association, Pieps Corporation, and BD European Holdings, LLC (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 4, 2012 and incorporated herein by reference).
10.6	Third Substitute Promissory Note, dated October 4, 2012, by and among Zions First National Bank, a national banking association, Black Diamond, Inc., Black Diamond Equipment Ltd., Black Diamond Retail, Inc., Everest/Sapphire Acquisition, LLC, Gregory Mountain Products, LLC, POC USA, LLC, Pieps Corporation, and BD European Holdings, LLC, as co-borrowers (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 4, 2012 and incorporated herein by reference).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

BLACK DIAMOND, INC.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BLACK DIAMOND, INC.

Date: November 6, 2012

/s/ Peter Metcalf
Name: Peter Metcalf
Title: President and Chief Executive Officer
(Principal Executive Officer)

/s/ Robert Peay
Name: Robert Peay,
Title: Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

BLACK DIAMOND, INC.

EXHIBIT INDEX

Exhibit	Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

BLACK DIAMOND, INC.

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Peter R. Metcalf, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Black Diamond, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2012	By:	/s/ Peter R. Metcalf
	Name:	Peter R. Metcalf
	Title:	President and Chief Executive Officer (Principal Executive Officer)

BLACK DIAMOND, INC.

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Robert Peay, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Black Diamond, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2012	By:	/s/ Robert Peay
	Name:	Robert Peay
	Title:	Chief Financial Officer (Principal Financial Officer)

BLACK DIAMOND, INC.

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Black Diamond, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Peter R. Metcalf, President and Chief Executive Officer, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 6, 2012	By:	/s/ Peter R. Metcalf
	Name:	Peter R. Metcalf
	Title:	President and Chief Executive Officer (Principal Executive Officer)

BLACK DIAMOND, INC.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Black Diamond, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert Peay, Chief Financial Officer, certify to my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 6, 2012	By:	/s/ Robert Peay
	Name:	Robert Peay
	Title:	Chief Financial Officer (Principal Financial Officer)