

Compass Diversified Holdings
Form DEF 14A
April 14, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary proxy statement
- Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))**
- Definitive proxy statement
- Definitive additional materials
- Soliciting material pursuant to § 240.14a-11(c) of § 240.14a-12

COMPASS DIVERSIFIED HOLDINGS

(Name of Registrant as Specified in its Charter)

COMPASS GROUP DIVERSIFIED HOLDINGS LLC

(Name of Registrant as Specified in its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Compass Diversified Holdings
Compass Group Diversified Holdings LLC
Notice of Annual Meeting of Shareholders

April 15, 2014

Dear Shareholder:

You are cordially invited to attend our Annual Meeting of Shareholders, which will be held on Thursday, May 29, 2014 at 9:00 a.m., Eastern Time, at the Delamar Southport, 275 Old Post Road, Southport, Connecticut 06890.

The proxy statement contains important information about the Annual Meeting, the proposals we will consider and how you can vote your shares. The Securities and Exchange Commission has adopted a Notice and Access rule that allows companies to deliver a Notice of Internet Availability of Proxy Materials, which we refer to as the Notice of Internet Availability, to shareholders in lieu of a paper copy of the proxy statement and related materials and the Company's Annual Report to Shareholders, which we refer to as the Proxy Materials. The Notice of Internet Availability provides instructions as to how shareholders can access the Proxy Materials online, contains a listing of matters to be considered at the meeting and sets forth instructions as to how shares can be voted. Shares must be voted either by telephone or online or by completing and returning a proxy card. **Shares cannot be voted by marking, writing on and/or returning the Notice of Internet Availability. Any Notices of Internet Availability that are returned will not be counted as votes.** Instructions for requesting a paper copy of the Proxy Materials are set forth on the Notice of Internet Availability.

Your vote is very important to us. We encourage you to promptly vote your shares either by telephone or online or by completing, signing, dating and returning the enclosed proxy card, which contains instructions on how you would like your shares to be voted. **Please submit your proxy regardless of whether you will attend the Annual Meeting.** This will help us ensure that your vote is represented at the Annual Meeting. Signing this proxy will not prevent you from voting in person should you be able to attend the meeting, but will assure that your vote is counted, if for any reason, you are unable to attend.

On behalf of the board of directors and the management of Compass Group Diversified Holdings LLC, I extend our appreciation for your investment in Compass Diversified Holdings. We look forward to seeing you at the Annual Meeting.

Sincerely,

C. Sean Day
Chairman of the Board of Directors

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Compass Diversified Holdings

Compass Group Diversified Holdings LLC

April 15, 2014

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On Thursday, May 29, 2014

Compass Diversified Holdings 2014 Annual Meeting of Shareholders will be held on Thursday, May 29, 2014 at 9:00 a.m., Eastern Time, at the Delamar Southport, 275 Old Post Road, Southport, Connecticut 06890, for the following purposes:

to elect two directors to our board of directors, each to serve for a three-year term;

to conduct an advisory vote on executive compensation;

to vote on a proposal to ratify the selection of Grant Thornton LLP to serve as the independent auditor for Compass Diversified Holdings and Compass Group Diversified Holdings LLC for the fiscal year ending December 31, 2014; and

to transact such other business as may properly come before the meeting.

These matters are more fully described in the enclosed proxy statement. The board of directors recommends that you vote FOR the election of the director nominees, FOR the approval of the executive compensation program and FOR the ratification of the independent auditor.

Shareholders of record at the close of business on April 1, 2014 will be entitled to notice of, and to vote at, the Annual Meeting and at any subsequent adjournments or postponements. The share register will not be closed between the record date and the date of the Annual Meeting. A list of shareholders entitled to vote at the Annual Meeting is available for inspection at our principal executive offices at Sixty One Wilton Road, Second Floor, Westport, Connecticut 06880. The notice of annual meeting, proxy statement and proxy are first being mailed or provided to shareholders on or about April 15, 2014.

To be sure that your shares are properly represented at the meeting, whether or not you attend, please promptly complete, sign, date and return the enclosed proxy card in the accompanying pre-addressed envelope or submit your vote by telephone or online. We must receive your proxy no later than 5:00 p.m., Eastern Time, on May 28, 2014.

You will be required to bring certain documents with you to be admitted to the Annual Meeting. Please read carefully the sections in the proxy statement on attending and voting at the Annual Meeting to ensure that you comply with these requirements.

By order of the board of directors.

Sincerely,

Carrie W. Ryan
Secretary

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Compass Diversified Holdings, a Delaware statutory trust, which we refer to as the Trust, owns its businesses and investments through Compass Group Diversified Holdings LLC, a Delaware limited liability company, which we refer to as the Company. Except where the context indicates otherwise, we, us, and our refer to the Company and the Trust. References to shareholders refer to shareholders of the Trust.

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**COMPASS DIVERSIFIED HOLDINGS
COMPASS GROUP DIVERSIFIED HOLDINGS LLC**

Sixty One Wilton Road, Second Floor

Westport, Connecticut 06880

**PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS**

This proxy statement is being furnished in connection with the solicitation of proxies by the board of directors of Compass Group Diversified Holdings LLC, which we refer to as the Company, a Delaware limited liability company, for the 2014 Annual Meeting of Shareholders of Compass Diversified Holdings, which we refer to as the Trust, to be held on May 29, 2014 at 9:00 a.m., Eastern Time, at the Delamar Southport, 275 Old Post Road, Southport, Connecticut 06890 and for any adjournments or postponements of the 2014 Annual Meeting of Shareholders. We refer to the 2014 Annual Meeting of Shareholders as the Annual Meeting. The notice of Annual Meeting, proxy statement and proxy are first being mailed or provided to shareholders on or about April 15, 2014.

PURPOSE OF MEETING

As described in more detail in this proxy statement, the Annual Meeting is being held for the following purposes:

to elect two directors to our board of directors, each to serve for a three-year term;

to conduct an advisory vote on executive compensation;

to vote on a proposal to ratify the selection of Grant Thornton LLP to serve as the independent auditor for the Trust and the Company for the fiscal year ending December 31, 2014; and

to transact such other business as may properly come before the meeting.

ATTENDING AND VOTING AT THE ANNUAL MEETING

Broadridge Financial Solutions, Inc., which we refer to as Broadridge, has been selected as our inspector of election. As part of its responsibilities, Broadridge is required to independently verify that you are a shareholder of the Trust eligible to attend the Annual Meeting, and to determine whether you may vote in person at the Annual Meeting. Therefore, it is very important that you follow the instructions below to gain entry to the Annual Meeting.

Notice and Access

The Securities and Exchange Commission, which we refer to as the SEC, has adopted a Notice and Access rule that allows companies to deliver a Notice of Internet Availability of Proxy Materials, which we refer to as the Notice of

Internet Availability, to shareholders in lieu of a paper copy of the proxy statement and related materials and the Company's Annual Report to Shareholders, which we refer to as the Proxy Materials. The Notice of Internet Availability provides instructions as to how shareholders can access the Proxy Materials online, contains a listing of matters to be considered at the meeting and sets forth instructions as to how shares can be voted. Shares must be voted either by telephone, online or by completing and returning a proxy card. **Shares cannot be voted by marking, writing on and/or returning the Notice of Internet Availability. Any Notices of Internet Availability that are returned will not be counted as votes.** Instructions for requesting a paper copy of the Proxy Materials are set forth on the Notice of Internet Availability.

Important Notice Regarding Availability of Proxy Materials for the Annual Meeting to be Held on May 29, 2014:

The Proxy Materials are available at www.proxyvote.com. Enter the 12-digit control number located on the Notice of Internet Availability or proxy card.

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Check-in Procedure for Attending the Annual Meeting

Shareholders of Record. The documents you will need to provide to be admitted to the Annual Meeting depend on whether you are a shareholder of record or you represent a shareholder of record.

Individuals. If you are a shareholder of record holding shares in your own name, you must bring to the Annual Meeting a form of government-issued photo identification (e.g., a driver's license or passport). Trustees who are individuals and named as shareholders of record are in this category.

Individuals Representing a Shareholder of Record. If you attend on behalf of a shareholder of record, whether such shareholder is an individual, corporation, trust or partnership:

you must bring to the Annual Meeting a form of government-issued photo identification (e.g., a driver's license or passport); AND

either:

a letter from that shareholder of record authorizing you to attend the Annual Meeting on their behalf; OR

we must have received by 5:00 p.m., Eastern Time, on May 28, 2014 a duly executed proxy card from the shareholder of record appointing you as proxy.

Beneficial Owners. If your shares are held by a bank or broker (often referred to as "holding in street name") you should go to the Beneficial Owners check-in area at the Annual Meeting. Because you hold in street name, your name does not appear on the share register of the Trust. The documents you will need to provide to be admitted to the Annual Meeting depend on whether you are a beneficial owner or you represent a beneficial owner.

Individuals. If you are a beneficial owner, you must bring to the Annual Meeting:

either:

a form of government-issued photo identification (e.g., a driver's license or passport); AND

a legal proxy that you have obtained from your bank or broker; OR

your most recent brokerage account statement or a recent letter from your bank or broker showing that you own shares of the Trust.

Individuals Representing a Beneficial Owner. If you attend on behalf of a beneficial owner, you must bring to the Annual Meeting:

a letter from the beneficial owner authorizing you to represent its shares at the Annual Meeting; AND

the identification and documentation specified above for individual beneficial owners.

Voting in Person at the Annual Meeting

Shareholders of Record. Shareholders of record may vote their shares in person at the Annual Meeting by ballot. Each proposal has a separate ballot. You must properly complete, sign, date and return the ballots to the inspector of election at the Annual Meeting to vote in person. To receive ballots, you must bring with you the documents described below:

Individuals. You will receive ballots at the check-in table when you present your identification. If you have already returned your proxy card to us and do not want to change your votes, you do not need to complete the ballots. If you do complete and return the ballots to us, your proxy card will be automatically revoked.

Individuals Voting on Behalf of Another Individual. If you will vote on behalf of another individual who is a shareholder of record, **we must have received by 5:00 p.m., Eastern Time, on May 28, 2014** a duly executed proxy card from such individual shareholder of record appointing you as his or her proxy. If we have received the proxy card, you will receive ballots at the check-in table when you present your identification.

Individuals Voting on Behalf of a Legal Entity. If you represent a shareholder of record that is a legal entity, you may vote that legal entity's shares if it authorizes you to do so. The documents you must provide to receive ballots at the check-in table depend on whether you are representing a corporation, trust, partnership or other legal entity.

If you represent a corporation, you must:

bring to the Annual Meeting a letter or other document from the corporation, on the corporation's letterhead and signed by an officer of the corporation, that authorizes you to vote the corporation's shares on its behalf; OR

we must have received by 5:00 p.m., Eastern Time, on May 28, 2014 a duly executed proxy card from the corporation appointing you as its proxy.

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If you represent a trust, partnership or other legal entity, we must have received by 5:00 p.m., Eastern Time, on May 28, 2014 a duly executed proxy card from the legal entity appointing you as its proxy. A letter or other document will not be sufficient for you to vote on behalf of a trust, partnership or other legal entity other than a corporation.

Beneficial Owners. If you hold your shares in street name, these proxy materials are being forwarded to you by your bank, broker or their appointed agent. Because your name does not appear on the share register of the Trust, you will not be able to vote in person at the Annual Meeting unless you request a legal proxy from your bank or broker and bring it with you to the Annual Meeting.

Individuals. As an individual, the legal proxy will have your name on it. You must present the legal proxy at check-in to the inspector of election at the Annual Meeting to receive your ballots.

Individuals Voting on Behalf of a Beneficial Owner. Because the legal proxy will not have your name on it, to receive your ballots you must:

present the legal proxy at check-in to the inspector of election at the Annual Meeting; AND

bring to the Annual Meeting a letter from the person or entity named on the legal proxy that authorizes you to vote its shares at the Annual Meeting.

APPOINTMENT OF PROXY

Shareholders of Record. We encourage you to appoint a proxy to vote on your behalf by promptly submitting the enclosed proxy card, which is solicited by our board of directors, which we refer to as our Board or the Board, and which, when properly completed, signed, dated and returned to us, will ensure that your shares are voted as you direct. We strongly encourage you to return your completed proxy to us regardless of whether you will attend the Annual Meeting to ensure that your vote is represented at the Annual Meeting.

PLEASE RETURN YOUR PROXY CARD TO US IN THE ACCOMPANYING ENVELOPE, OR SUBMIT YOUR VOTE BY TELEPHONE OR ONLINE, NO LATER THAN 5:00 P.M., EASTERN TIME, ON MAY 28, 2014. IF WE DO NOT RECEIVE YOUR PROXY CARD BY THAT TIME, YOUR PROXY WILL NOT BE VALID. IN THIS CASE, UNLESS YOU ATTEND THE ANNUAL MEETING, YOUR VOTE WILL NOT BE REPRESENTED.

The persons named in the proxy card have been designated as proxies by our Board. The designated proxies are officers of the Company. They will vote as directed by the completed proxy card.

Shareholders of record may appoint another person to attend the Annual Meeting and vote on their behalf by crossing out the Board-designated proxies, inserting such other person's name on the proxy card and returning the duly executed proxy card to us. When the person you appoint as proxy arrives at the Annual Meeting, the inspector of election will verify such person's authorization to vote on your behalf by reference to your proxy card. If you would like to appoint a person as proxy other than those designated by our Board, you must do so by using the proxy card, as described above.

If you wish to change your vote, you may do so by revoking your proxy before the Annual Meeting. Please see APPOINTMENT OF PROXY Revocation of Proxy below for more information.

Beneficial Owners. If you hold your shares in street name, these proxy materials are being forwarded to you by your bank, broker or their appointed agent. You should also have received a voter instruction card instead of a proxy card. Your bank or broker will vote your shares as you instruct on the voter instruction card. We strongly encourage you to promptly complete and return your voter instruction card to your bank or broker in accordance with their instructions so that your shares are voted. As described above, you may also request a legal proxy from your bank or broker to vote in person at the Annual Meeting.

Voting by the Designated Proxies

The persons who are the designated proxies will vote as you direct in your proxy card or voter instruction card. Please note that proxy cards returned without voting directions, and without specifying a proxy to attend the Annual Meeting and vote on your behalf, will be voted by the proxies designated by our Board in accordance with the recommendations of our Board. Our Board recommends:

a vote **FOR** each of the two nominees for director, each to serve for a three-year term (Proposal 1);

a vote **FOR** the approval of the compensation of our executive officers as disclosed in the proxy statement (Proposal 2); and

a vote **FOR** the proposal to ratify the selection of Grant Thornton LLP as the Trust s and the Company s independent auditor for the fiscal year ending December 31, 2014 (Proposal 3).

If any other matter properly comes before the Annual Meeting, your proxies will vote on that matter in their discretion.

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Revocation of Proxy

You may revoke or change your proxy before the Annual Meeting by:

sending us a duly executed written notice of revocation prior to the Annual Meeting;

attending the Annual Meeting and voting in person; OR

ensuring that we receive from you, **prior to 5:00 p.m., Eastern Time, on May 28, 2014** a new proxy card with a later date, including receipt of a new proxy card submitted online.

Any written notice of revocation must be sent to the attention of Carrie W. Ryan, Secretary, Compass Group Diversified Holdings LLC, Sixty One Wilton Road, Second Floor, Westport, Connecticut 06880 or by facsimile to (203) 221-8253.

APPROVAL OF PROPOSALS AND SOLICITATION

Each shareholder who owned shares of Trust stock on April 1, 2014, the record date for the determination of shareholders entitled to vote at the Annual Meeting, is entitled to one vote for each share of Trust stock. On April 1, 2014, we had 48,300,000 shares of Trust stock issued and outstanding that were held by approximately 20,000 beneficial holders.

Quorum

Under the Amended and Restated Trust Agreement of the Trust, dated April 25, 2006, as amended, which we refer to as the Trust Agreement, the shareholders present in person or by proxy holding a majority of the outstanding shares of Trust stock entitled to vote shall constitute a quorum at a meeting of shareholders of the Trust. Holders of shares of Trust stock are the only shareholders entitled to vote at the Annual Meeting. Shares represented by proxies that are marked `abstain` will be counted as shares present for purposes of determining the presence of a quorum. Shares of Trust stock that are represented by broker non-votes will be counted as shares present for purposes of determining the presence of a quorum. A broker non-vote occurs when the broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power to vote on that proposal without specific voting instructions from the beneficial owner. Proposals 1 and 2 described in this proxy are non-discretionary items and Proposal 3 described in this proxy is a discretionary item.

If the persons present or represented by proxies at the Annual Meeting do not constitute a majority of the holders of outstanding Trust stock entitled to vote as of the record date, we will postpone the Annual Meeting to a later date.

Approval of Proposals

For the election of directors (Proposal 1), the affirmative vote of at least a plurality of the votes cast on such proposal is required. The advisory vote on executive compensation (Proposal 2) requires the affirmative vote of at least a majority of the outstanding shares present in person or represented by proxy at the Annual Meeting. Because your votes on Proposal 2 are advisory, they will not be binding on the Board or the Company. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive

compensation. For the approval of the proposal to ratify the selection of Grant Thornton LLP as the independent auditor for the Trust and the Company (Proposal 3), the affirmative vote of at least a majority of the outstanding shares present in person or represented by proxy at the Annual Meeting is required. An abstention will not be counted as a vote cast. With the exception of certain business combinations, as such term is defined in the Trust Agreement, any other proposal that properly comes before the Annual Meeting must be approved by the affirmative vote of at least a majority of the outstanding shares present in person or represented by proxy at the Annual Meeting. A broker non-vote would also not be counted as a vote cast.

Proposal 3 is a discretionary item. New York Stock Exchange (NYSE) member brokers that do not receive instructions from beneficial owners may vote your shares in their discretion. Proposals 1 and 2 are non-discretionary items and member brokers may not vote on the proposal without specific voting instructions from beneficial owners, resulting in a broker non-vote.

Under the terms of the Fourth Amended and Restated Operating Agreement of the Company, dated as of January 1, 2012, which we refer to as the LLC Agreement, and the Trust Agreement, with respect to those matters subject to vote by the members of the Company, the Company will act at the direction of the Trust. The Trust Agreement requires the Trust to vote 100% of the limited liability interests of the Company, or the LLC interests, of which it is the sole holder, in the same proportion as the vote of holders of the Trust stock. In this way the voting rights of members of the Company will effectively be exercised by the shareholders of the Trust by proxy. The LLC Agreement provides that the members are entitled, at the annual meeting of members of the Company, to vote for the election of all of the directors other than the director appointed by the Company's Allocation Member. At this meeting, Class II directors will be elected in accordance with the LLC Agreement. See PROPOSAL 1: ELECTION OF DIRECTORS Board Composition for a description of Class II directors. The Trust will vote its LLC interests as directed at the Company's annual members meeting promptly following the tabulation of votes cast at this Annual Meeting.

All votes will be tabulated by Broadridge, the proxy tabulator and inspector of election appointed for the Annual Meeting. Broadridge will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

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Solicitation of Proxies

We will bear the cost of the solicitation of proxies, including the preparation, printing and mailing of this proxy statement and the proxy card. We have also retained Broadridge to distribute copies of these proxy materials to banks, brokers, fiduciaries and custodians, or their agents holding shares in their names on behalf of beneficial owners so that they may forward these proxy materials to our beneficial owners.

We may supplement the original solicitation of proxies by mail with solicitation by telephone, telegram and other means by directors, officers and/or employees of our Manager. We will not pay any additional compensation to these individuals for any such services.

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PROPOSAL 1:

ELECTION OF DIRECTORS

Board Composition

Our Board consists of seven directors, five of whom are the Company's independent directors. Our Board has the ability to decrease or increase its size to no less than five or up to thirteen directors, respectively. Six of our directors are elected by our shareholders and one director is appointed by the Company's Allocation Member (as defined herein). The Board is divided into three classes serving staggered three year terms. The terms of office of Classes I, II and III expire at different times in annual succession, with one class being elected at each annual meeting of shareholders. Messrs. Bottiglieri and Burns are Class II members and are up for re-election at this year's Annual Meeting. Messrs. Day and Ewing are Class III members and will serve until the 2015 Annual Meeting. Messrs. Edwards and Lazarus are Class I members and will serve until the 2016 Annual Meeting. Pursuant to the LLC Agreement, the Company's Allocation Member has the right to appoint one director to the Board. Mr. Offenbergl, our chief executive officer, has been appointed a director by the Allocation Member and is currently serving as the director appointed by the Allocation Member. Any appointed director will not be required to stand for election by the shareholders.

Director Independence

Pursuant to our governing documents, our Board will consist of at least a majority of independent directors at all times. Our Board has reviewed the materiality of any relationship that each of our directors has with the Trust or the Company, either directly or indirectly. Based on this review, the Board has determined that the following directors are independent directors as defined by the NYSE: Messrs. Burns, Day, Edwards, Ewing and Lazarus.

Election of Directors

The Class II directors will be elected at the Annual Meeting and will serve a term that expires at our 2017 Annual Meeting. Messrs. Bottiglieri and Burns have been nominated for re-election as Class II directors. Each of Mr. Bottiglieri and Mr. Burns was nominated by the Board upon the recommendation of the nominating and corporate governance committee.

The following paragraphs describe the business experience and education of Messrs. Bottiglieri and Burns.

James J. Bottiglieri has served as a director of the Company since December 2005. Mr. Bottiglieri was the Company's chief financial officer and an executive vice president of the Company's Manager from 2005 to 2013. Previously, Mr. Bottiglieri was the senior vice president/controller of WebMD Corporation. Prior to that, Mr. Bottiglieri was with Star Gas Corporation and a predecessor firm to KPMG LLP. Mr. Bottiglieri serves as a director for American Furniture Manufacturing, Inc., a subsidiary of the Company. Mr. Bottiglieri also serves on the board of directors and is the chairman of the audit committee of Horizon Technology Finance Corporation, a NASDAQ listed company. Mr. Bottiglieri is a graduate of Pace University.

As the former chief financial officer of the Company, as well as a former director for several of our subsidiary companies, Mr. Bottiglieri brings to our Board an intimate understanding of our business and operations and the business and operations of our subsidiaries. Mr. Bottiglieri provides the Board with Company-specific experience and expertise, in addition to his substantial expertise in accounting, tax and other financial matters.

Gordon M. Burns has served as a director of the Company since May 2008. Mr. Burns has been a private investor since 1998. Previously, he was responsible for investment banking at UBS Securities and before that was a managing director at Salomon Brothers Inc. Mr. Burns served on the board of directors of Aztar Corporation, a NYSE listed company, from 1998 through 2007. Mr. Burns is a graduate of Yale University and the Harvard Business School.

Mr. Burns brings to our Board extensive knowledge of investment and financing activities, having significant experience in such fields. He has also been involved with several public and private companies as they have gone through important transitions, including mergers and acquisitions, divestitures and management succession. Our Board benefits from the insights gleaned from these experiences.

The following paragraphs describe the business experience and education of our Class I and III directors and the Allocation Member s appointed director (not standing for re-election).

Harold S. Edwards has served as a director of the Company since April 2006. Mr. Edwards has been the president and chief executive officer of Limoneira Company, a NASDAQ listed company, since November 2003. Previously, Mr. Edwards was the president of Puritan Medical Products, a division of Airgas Inc. Prior to that, Mr. Edwards held management positions with Fisher Scientific International, Inc., Cargill, Inc., Agribands International and the Ralston Purina Company. Mr. Edwards is currently a member of the boards of directors of Limoneira Company and Calavo Growers, Inc., which is also a NASDAQ listed company. Mr. Edwards is a graduate of Lewis and Clark College and The Thunderbird School of Global Management.

Mr. Edwards experience as a chief executive officer and senior executive across a variety of industries allows him to bring a hands on management perspective to our Board, particularly in the areas of operations, executive compensation, succession planning and issues confronting a diversified array of companies.

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Mark H. Lazarus has served as a director of the Company since April 2006. Mr. Lazarus has been the president and chairman of NBC Universal Sports Group since January 2011. Previously, Mr. Lazarus was a senior sports adviser for Comcast Corporation, a NASDAQ listed company, since December 2010, the president, media and marketing, of CSE, a sports and entertainment company from 2008 through 2010, and the president of Turner Entertainment Group from 2003 through 2008. Prior to that, Mr. Lazarus served in a variety of other roles for Turner Broadcasting and also worked for Backer, Spielvogel, Bates, Inc. and NBC Cable. Mr. Lazarus served on the board of directors of Cincinnati Bell, a NYSE listed company, from 2009 through 2011. Mr. Lazarus is a graduate of Vanderbilt University.

Mr. Lazarus' extensive experience in the media industry provides the Board with an important perspective in the areas of marketing and use of media by our Company and its subsidiaries. Mr. Lazarus' management and leadership experience provides the Board with guidance on the skills necessary to lead and properly manage our subsidiaries.

C. Sean Day has served as chairman of the Board since April 2006. Mr. Day has been the president of Seagin International, and he was the chairman of our Manager's predecessor from 1999 to 2006. Previously, Mr. Day was with Navios Corporation and Citicorp Venture Capital. Mr. Day is currently the chairman of the boards of directors of Teekay Corporation; Teekay Offshore GP LLC, the general partner of Teekay Offshore Partners LP; Teekay GP L.L.C., the general partner of Teekay LNG Partners LP; and a member of the board of directors of Kirby Corporation, all NYSE listed companies. Mr. Day is a graduate of the University of Capetown and Oxford University.

Mr. Day's experiences as both an operating executive and investor are invaluable to our Board, and enable him to effectively serve as our chairman. Furthermore, Mr. Day's substantial experience as a director of other companies, both public and private, adds an important dimension to our Board and provides valuable insight on governance practices and risk management. In addition, his leadership experience and knowledge of global investment decisions and related risks provides the Board with an important global perspective.

D. Eugene Ewing has served as a director of the Company since April 2006. Mr. Ewing has been the managing member of Deeper Water Consulting, LLC, a private wealth and business consulting company since March 2004. Previously, Mr. Ewing was with the Fifth Third Bank. Prior to that, Mr. Ewing was a partner in Arthur Andersen LLP. Mr. Ewing is a member of the board of directors and serves on the audit committee and compensation committee of Darling International Inc., a NYSE listed company. Mr. Ewing also serves on the boards of directors of a private trust company located in Wyoming and a private consulting company located in California. Mr. Ewing is also on advisory boards for the business schools at Northern Kentucky University and the University of Kentucky. Mr. Ewing is a graduate of the University of Kentucky.

As a former partner with a respected public accounting firm, Mr. Ewing brings to our Board and his role as chairman of our audit committee substantial experience with complex accounting and reporting issues, SEC filings and corporate transactions. Mr. Ewing's experience in these areas has allowed him to become, as the chairman of our audit committee, a strong financial leader.

Alan B. Offenberg has served as a director and chief executive officer of the Company since February 2011. Mr. Offenberg has also been a partner of our Manager and its predecessor since 1998. Previously, Mr. Offenberg was with Trigen Energy, Creditanstalt- Bankverein and GE Capital. Mr. Offenberg currently serves as a director for all of our subsidiary companies, excluding Fox Factory Holding Corp. (NASDAQ: FOXF). Mr. Offenberg serves as the chairman of American Furniture Manufacturing, Inc., CamelBak Products, LLC, and Liberty Safe and Security Products, Inc. Mr. Offenberg is a graduate of Tulane University and the Northeastern University Graduate School of Business.

Mr. Offenberg brings extensive experience in management, private equity and operating finance to our Board. Mr. Offenberg's knowledge and experience of the Company, as well as the Company's subsidiaries, provides the Board with an intricate understanding of the Company's business, history and organization that is critical to the overall functioning of the Board.

Recommendation of the Board

Our Board recommends that you vote **FOR** the election of Messrs. Bottiglieri and Burns to our Board as Class II directors for a term ending at our 2017 Annual Meeting.

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PROPOSAL 2: ADVISORY VOTE REGARDING EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables our shareholders to vote to approve, on an advisory (nonbinding) basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with applicable SEC rules.

Our compensation policy is designed to enable us to attract, motivate, reward and retain the management talent required to achieve our objectives, and thereby increase shareholder value. Please see the section titled **EXECUTIVE COMPENSATION Compensation Discussion and Analysis** and the related compensation tables below for additional details about our executive compensation policy, including information about the fiscal year 2013 compensation of our named executive officers.

We are asking our shareholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a **say-on-pay** proposal, gives our shareholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officer and the philosophy, policies and practices described in this proxy statement. We believe our overall compensation policy accomplishes our compensation goals of attracting and retaining a qualified and talented chief financial officer. Accordingly, we will ask our shareholders to vote **FOR** the following resolution at the Annual Meeting:

RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officer, as disclosed in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission.

The say-on-pay vote is advisory, and therefore not binding on the Company, the compensation committee or our Board. Our Board and our compensation committee value the opinions of our shareholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider the results of the vote in future compensation deliberations and evaluate whether any actions are necessary to address shareholder concerns.

The Company will include a proposal seeking shareholder approval, on an advisory basis, of the compensation of our named executive officers in the proxy statement every year until the annual meeting of shareholders in 2017. In 2017, the Company will include a proposal seeking shareholder approval, on an advisory basis, of the frequency at which the Company shall seek shareholder approval, on an advisory basis, of the compensation of the named executive officers.

Recommendation of the Board

Our Board recommends that you vote **FOR** the resolution approving the compensation of our executive officer as disclosed in this proxy statement.

Table of Contents**PROPOSAL 3: RATIFICATION OF SELECTION OF INDEPENDENT AUDITOR****General**

Our Board has recommended and asks that you ratify the selection of Grant Thornton LLP as independent auditor for the Company and the Trust for the fiscal year ending December 31, 2014. You would be so acting based on the recommendation of our audit committee.

Grant Thornton LLP was appointed by our audit committee to audit the annual financial statements of the Company and the Trust for the fiscal years ended December 31, 2013 and December 31, 2012. Based on its past performance during these audits, the audit committee of the Board has selected Grant Thornton LLP as the independent auditor to perform the audit of our financial statements and internal control over financial reporting for 2014. Grant Thornton LLP is a registered public accounting firm. Information regarding Grant Thornton LLP can be found at: www.grantthornton.com.

The affirmative vote of a majority of the outstanding shares present in person or represented by proxy at the Annual Meeting is required to ratify the appointment of Grant Thornton LLP. If you do not ratify the selection of Grant Thornton LLP, our Board will reconsider its selection of Grant Thornton LLP and may in its sole discretion, make a new proposal for independent auditor.

Representatives of Grant Thornton LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to questions.

Fees

The chart below sets forth the total amount billed to us by Grant Thornton LLP for services performed for fiscal years 2013 and 2012, respectively, and breaks down these amounts by category of service:

	2013	2012
Audit Fees (1)	\$ 4,852,162	\$ 4,136,063
Audit-Related Fees (2)	172,169	233,965
Tax Fees (3)	32,458	58,072
Total	\$ 5,056,789	\$ 4,428,100

- (1) **Audit Fees** are fees billed by Grant Thornton LLP for professional services for the audit of our consolidated financial statements included in our annual reports on Form 10-K and for the review of financial statements included in our quarterly reports on Form 10-Q, or for services that are normally provided by the auditors in connection with statutory and regulatory filings or engagements.
- (2) **Audit-Related Fees** are fees billed by Grant Thornton LLP for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. The 2013 fees were rendered for diligence efforts associated with the termination of the supplemental put and for an unsuccessful acquisition. The 2012 fees were rendered for diligence efforts associated with our

acquisition of Arnold Magnetic Technologies, LLC completed in March of 2012 and the HALO divestiture completed May 1, 2012.

- (3) Tax fees are fees billed by Grant Thornton LLP for professional services rendered in connection with tax compliance, advice and planning.

Pre-Approval Policies and Procedures

The audit committee has established policies and procedures for its appraisal and approval of audit and non-audit services. The audit committee has also delegated to the chairman of the committee the authority to approve additional audit and non-audit services and, subject to compliance with all applicable independence requirements, to approve the engagement of additional accounting firms to provide such services. The audit committee or its chairman has pre-approved all of the services provided by Grant Thornton LLP since its engagement. All other audit-related, tax and other fees may be approved by the audit committee prospectively.

In making its recommendation to ratify the selection of Grant Thornton LLP as independent auditor for the fiscal year ending December 31, 2014, the audit committee has considered whether the services provided by Grant Thornton LLP are compatible with maintaining the independence of Grant Thornton LLP and has determined that such services do not interfere with Grant Thornton LLP's independence.

Recommendation of the Board

Our Board recommends that, based on the recommendation of the audit committee, you vote **FOR** the ratification of the selection of Grant Thornton LLP to serve as independent auditor for the Company and the Trust for the fiscal year ending December 31, 2014.

Table of Contents**BOARD OF DIRECTORS, EXECUTIVE OFFICERS AND COMMITTEES****Certain Information Regarding our Directors and Executive Officers**

The name and age of each director, nominee and executive officer and the positions held by each of them as of March 31, 2014 are as follows:

Director	Age	Serving as Officer or Director Since	Position
C. Sean Day	64	2006	Chairman/Director
Gordon M. Burns	62	2008	Director
Harold S. Edwards	48	2006	Director
D. Eugene Ewing	65	2006	Director
Mark H. Lazarus	50	2006	Director
Alan B. Offenberg	46	2011	Director, Chief Executive Officer
James J. Bottiglieri	58	2005	Director
Ryan J. Faulkingham	37	2013	Chief Financial Officer

Effective November 30, 2013, Mr. Bottiglieri retired as our chief financial officer and Mr. Faulkingham became our new chief financial officer. The following paragraph describes the business experience and education of Mr. Faulkingham.

Ryan J. Faulkingham has served as chief financial officer of the Company since November 2013. Mr. Faulkingham joined the Company in 2008 and most recently was the Company's Director of Financial Reporting. Prior to joining us in 2008, Mr. Faulkingham served as a Vice President at Merrill Lynch & Co., a financial management and advisory company, where he prepared regulatory filings, performed technical accounting research and implemented policies to ensure compliance with internal control standards. From 2003 to 2006, he was Manager, Accounting and External Reporting at WebMD Health Corp., a medical information company, serving as a key contributor to the company's 2005 initial public offering and lead finance member for numerous mergers and acquisitions. Mr. Faulkingham began his career in public accounting at Arthur Anderson and later at KPMG, both accounting firms. He received a BS in Accounting from Lehigh University and an MBA from Fordham University.

Board Leadership Structure and Role of Risk Oversight

Generally. The LLC Agreement provides that the chairman is elected by a majority of the Board and must also be a member of the Board. The chairman is not required to be an employee of the Company. Likewise, the LLC Agreement provides that the chief executive officer is elected by the Board. Although there is no requirement that the chief executive officer and the chairman be separate positions, the Board has currently chosen to separate the chief executive officer and chairman positions. The Board believes the current separation of these roles helps to ensure good Board governance and fosters independent oversight to protect the long-term interests of the Company's private and institutional shareholders. In addition, the Board believes this separation is presently appropriate as it allows our chief executive officer to focus primarily on leading the Company's day-to-day business and affairs while the chairman can focus on leading the Board in its consideration of strategic issues and monitoring corporate governance and shareholder matters.

Risk Oversight. The Board performs a majority of its role in risk oversight through the audit committee. The audit committee charter provides that the audit committee shall assist the Board in fulfilling its oversight responsibility relating to the evaluation of enterprise risk issues. In addition, the audit committee, pursuant to its charter, discusses with management, the vice president of internal audit and internal audit service providers, as the case may be, and the independent accountant, the Company's major risk exposures (whether financial, operational or both) and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. The Company's internal audit department supervises the day-to-day risk management responsibilities of the Company and reports directly to the audit committee, which is comprised solely of independent directors. In addition, during each quarterly meeting of the audit committee, the members of the audit committee meet with the Company's vice president of internal audit and independent accountant, in each case, without management present, to discuss the specific areas of risk identified during the quarter, if any. The audit committee is authorized to utilize outside lawyers, internal staff, independent experts and other consultants to assist and advise the committee in connection with its responsibilities, including the evaluation of the Company's major risk exposures. The Company's management team, including Company counsel, regularly evaluates the risks inherent to the businesses of the Company's subsidiaries and periodically reports the results of such evaluations to the full Board for consideration. The Board believes that the foregoing processes for overseeing risk ensures that independent directors are aware of the Company's major risk exposures.

Board Meetings and Committees

Our Board met nine times during 2013. All directors attended at least 75% of the combined Board and committee meetings on which they served in 2013. Although we have no formal policy regarding director attendance at the annual meeting of the shareholders, directors are encouraged to attend. All of the Company's directors attended the 2013 Annual Meeting.

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The LLC Agreement gives our Board the authority to delegate its powers to committees appointed by the Board. All of our standing committees are composed solely of independent directors, as defined by the applicable NYSE committee membership independence standards. Our committees are required to conduct meetings and take action in accordance with the directions of the Board, the provisions of our LLC Agreement and the terms of the respective committee charters. We have three standing committees: the audit committee, the compensation committee and the nominating and corporate governance committee. Each of the audit committee, compensation committee and nominating and corporate governance committee may not delegate any of its authority to subcommittees unless otherwise authorized by the Board. Copies of all committee charters are available on our website at www.compassdiversifiedholdings.com, and in print from us without charge upon request by writing to Investor Relations at our principal executive offices at Sixty One Wilton Road, Second Floor, Westport, Connecticut 06880. The information on our website is not, and shall not be deemed to be, incorporated by reference into this proxy statement or incorporated into any other filings that the Company or the Trust makes with the SEC.

Audit Committee. The audit committee is comprised entirely of independent directors who meet the independence requirements of the NYSE and Rule 10A-3 of the Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and includes at least one audit committee financial expert, as required by applicable SEC regulations. The audit committee is responsible for, among other things:

retaining and overseeing our independent accountants;

assisting the Board in its oversight of the integrity of our financial statements, the qualifications, independence and performance of our independent auditors and our compliance with legal and regulatory requirements;

reviewing and approving the plan and scope of the internal and external audit;

pre-approving any audit and non-audit services provided by our independent auditors;

approving the fees to be paid to our independent auditors;

reviewing with our chief executive officer and chief financial officer and independent auditors the adequacy and effectiveness of our internal controls;

preparing the audit committee report to be filed with the SEC; and

reviewing and assessing annually the audit committee's performance and the adequacy of its charter. Messrs. Edwards, Ewing and Burns serve on our audit committee, and the Board has determined that Mr. Ewing qualifies as an audit committee financial expert, as defined by the SEC. The audit committee met six times during 2013.

Compensation Committee. The compensation committee is comprised entirely of independent directors who meet the compensation committee independence requirements of the NYSE. In accordance with the compensation committee charter, the members are outside directors as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, and non-employee directors within the meaning of Section 16 of the Exchange Act. The responsibilities of the compensation committee include:

reviewing our Manager's performance of its obligations under the Management Services Agreement;

reviewing the remuneration of our Manager and approving the remuneration paid to our Manager as reimbursement for the compensation paid by our Manager to our chief financial officer and the chief financial officer's staff;

determining the compensation of our independent directors;

granting rights to indemnification and reimbursement of expenses to the Manager and any seconded individuals; and

making recommendations to the Board regarding equity-based and incentive compensation plans, policies and programs.

Neither the compensation committee nor management has engaged compensation consultants to provide advice with respect to the form or amount of director compensation. In early 2013, the compensation committee conducted a survey of the director compensation practices of other companies that it considered reasonably comparable to the Company. The compensation committee targets cash and equity compensation for the Company's directors at the average of the peer group. The committee also considered the time commitment, responsibilities and related burdens of Board service over the Company's history. Based upon the compensation committee's review, the committee recommended to the full Board that the annual cash retainer paid to directors be increased by \$17,000 and the annual cash retainer paid to the Chairman be increased by \$34,000. The full Board ratified the compensation committee's recommendation on February 28, 2013. The increases in compensation became effective as of January 1, 2013. The Company's Manager is responsible for establishing the form and amount of compensation paid to our chief financial officer and his staff by our Manager. The Company's Compensation Committee is responsible for approving the remuneration paid to our Manager as reimbursement for the compensation paid by our Manager to our chief financial officer and the chief financial officer's staff. Mr. Offenberg, our chief executive officer, in his capacity as a member of our Manager, participates in the establishment of the form and amount of compensation paid to our chief financial officer and his staff by our Manager.

Messrs. Edwards, Ewing and Lazarus serve on our compensation committee. The compensation committee met one time during 2013.

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Nominating and Corporate Governance Committee. The nominating and corporate governance committee is comprised entirely of independent directors who meet the independence requirements of the NYSE. The nominating and corporate governance committee is responsible for, among other things:

recommending the number of directors to comprise the Board;

identifying and evaluating individuals qualified to become members of the Board, other than our Manager's appointed director and his or her alternate, and soliciting recommendations for director nominees from the chairman and chief executive officer of the Company;

recommending to the Board the director nominees for each annual shareholders' meeting, other than our Manager's appointed director;

recommending to the Board the candidates for filling vacancies that may occur between annual shareholders meetings, other than our Manager's appointed director;

reviewing independent director compensation and Board processes, self-evaluations and policies;

overseeing compliance with our code of ethics and conduct by our officers and directors; and

monitoring developments in the law and practice of corporate governance.

Messrs. Burns, Edwards, and Lazarus serve on our nominating and corporate governance committee. The nominating and corporate governance committee met one time during 2013.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee are, or have been, an officer or employee of the Company. During 2013, no member of our compensation committee had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K. None of our executive officers serves on a board of directors or compensation committee of a company that has an executive officer serving on our Board or compensation committee.

Executive Sessions of our Board

Our corporate governance guidelines provide that the non-management directors will meet without management directors at regularly scheduled executive sessions at least quarterly and at such other times as they deem appropriate. The independent directors meet in executive session at least quarterly. In accordance with our corporate governance guidelines, the chairman of the Board, audit committee, nominating and corporate governance committee or compensation committee will preside at these executive sessions of the non-management directors and independent directors as determined by the non-executive directors based upon the subject matter to be discussed. Mr. Day presided, and continues to preside, over sessions of the non-management and independent directors. Our

non-management directors met four times during 2013.

Nominations of Directors

As provided in its charter, the nominating and corporate governance committee will identify and recommend to the Board nominees for election or re-election to the Board. In addition, the committee may review candidates for the Board recommended by executive search firms, the Company's management and other members of the Board who are not members of the committee, as well as candidates recommended by shareholders, in accordance with the following criteria and as discussed in "Shareholder Nominations of Directors" below.

The nominating and corporate governance committee, in making its recommendations regarding Board nominees, may consider some or all of the following factors, among others:

the candidate's judgment, skill, and experience with other organizations of comparable purpose, complexity and size, and subject to similar legal restrictions and oversight;

the relationship of the candidate's experience to the experience of other Board members;

the extent to which the candidate would be a valuable addition to the Board and any committees thereof;

whether or not the person has any relationships that might impair his or her independence, including any business, financial or family relationships with the Manager or the Company's management; and

the candidate's ability to contribute to the effective management of the Company, taking into account the needs of the Company and such factors as the individual's experience, perspective, skills, and knowledge of the industries in which the Company operates.

In recommending candidates for election as directors, the nominating and corporate governance committee will also take into consideration the need for the Board to have a majority of directors that are independent under the requirements of the NYSE and other applicable laws, and at least three directors that are independent under these requirements and are not appointed by the Allocation Member pursuant to the terms of the LLC Agreement or otherwise affiliated with our Manager.

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In addition, the nominating and corporate governance committee will recommend candidates for election as directors based on the following criteria and qualifications:

Financial Literacy. Such person should be financially literate as such qualification is interpreted by the Board in its business judgment.

Leadership Experience. Such person should possess significant leadership experience, such as experience in business, finance/accounting, law, education or government, and shall possess qualities reflecting a proven record of accomplishment and ability to work with others.

Commitment to our Company's Values. Such person shall be committed to promoting our financial success and preserving and enhancing our reputation and shall be in agreement with our values as embodied in our code of ethics.

Absence of Conflicting Commitments. Such person should not have commitments that would conflict with the time commitments of a director of our Company.

Complementary Attributes. Such person shall have skills and talents which would be a valuable addition to the Board and any committees thereof and that shall complement the skills and talents of our existing directors.

Reputation and Integrity. Such person shall be of high repute and integrity.

Neither the nominating and corporate governance committee nor the Board has a formal policy with regard to the consideration of diversity in identifying director nominees; however, diversity is one of the criteria evaluated by the nominating and corporate governance committee when selecting Board nominees and re-electing Board members. The nominating and corporate governance committee seeks and recommends candidates for election or re-election with differences of viewpoint, professional experience, education, skill, background and other individual qualities. The nominating and corporate governance committee charter provides that the committee endeavor to solicit as director candidates individuals possessing skills and talents which would complement the skills and talents of the Company's existing directors. In addition, before recommending that the Board nominate each new director candidate or re-nominate each incumbent director, the nominating and corporate governance committee assesses to what extent such individual's contributions will enhance the effectiveness of the Board and its committees given its overall current composition. Each year, the Board assesses the effectiveness of its diversity efforts, among other items, during its annual self-evaluation process. The nominating and corporate governance committee assesses annually the composition of the Board and each long standing committee. Under the Company's corporate governance guidelines, directors must inform the chairman of the Board and the chairman of the nominating and corporate governance committee in advance of accepting an invitation to serve on another public company board or any committee thereof.

Shareholder Nominations of Directors

To make a director nomination, a shareholder must give written notice to our Secretary at our principal executive office at Sixty One Wilton Road, Second Floor, Westport, Connecticut 06880, Attention: Investor Relations. To be considered for inclusion in our proxy statement for the 2015 Annual Meeting of Shareholders, shareholder nominations must be received by the Company no later than January 28, 2015. In order for a notice to be timely, it must be delivered to our Secretary at the principal executive office described in the preceding sentence not less than 120 days or more than 150 days prior to the first anniversary of the preceding year's annual meeting. In the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by a shareholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Trust.

When directors other than the Manager's appointed director are to be elected at a special meeting, such notice must be given not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which a public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting.

In addition to any other requirements, for a shareholder to properly bring a nomination for director before either an annual or special meeting, the shareholder must be a shareholder of record on both the date of the shareholder's notice of nomination and the record date relating to the meeting.

The shareholder submitting the recommendation must submit:

the shareholder's name and address as they appear on the share register of the Trust, as well as the name and address of the beneficial owner, if any, on whose behalf the nomination is made;

the number of shares of Trust stock which are owned beneficially and of record by such shareholder and such beneficial owner, if any; and

a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons pursuant to which the recommendation is being made by the shareholder.

In addition, any such notice from a shareholder recommending a director nominee must include the following information:

the candidate's name, age, business address and residence address;

the candidate's principal occupation or employment;

the number of shares of Trust stock that are beneficially owned by the candidate;

a copy of the candidate's resume;

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a written consent from the candidate to being named in the proxy statement as a nominee and to serving as director, if elected; and

any other information relating to such candidate that would be required to be disclosed in solicitations of proxies for election of directors under the federal securities laws, including Regulation 14A of the Exchange Act.

We may require any proposed nominee to furnish any additional information that we reasonably require to enable our nominating and corporate governance committee to determine the eligibility of the proposed nominee to serve as a director. Candidates are evaluated based on the standards, guidelines and criteria discussed above as well as other factors contained in the nominating and corporate governance committee's charter, our corporate governance guidelines, other of our policies and guidelines and the current needs of the Board.

Table of Contents**DIRECTOR COMPENSATION**

For fiscal year 2013, our non-management directors each received annual cash retainers of \$62,000, or \$102,000 if serving as the chairman of the Board, payable in equal quarterly installments, as well as cash compensation for attendance at committee meetings and an annual retainer for service as committee chairman, both as described below. For fiscal year 2014, our non-management directors will receive annual cash retainers of \$62,000, or \$102,000 if serving as the chairman of the Board, payable in equal quarterly installments, as well as cash compensation for attendance at committee meetings and an annual retainer for service as a committee chairman. Directors (including the chairman) are reimbursed for reasonable out-of-pocket expenses incurred in attending meetings of the Board or committees and for any expenses reasonably incurred in their capacity as directors. The Company also reimburses directors for all reasonable and authorized business expenses related to service to the Company by the directors in accordance with the policies of the Company as in effect from time to time.

Messrs. Day, Edwards, Ewing and Lazarus have been independent directors since the closing of our initial public offering in May 2006. Mr. Burns has been an independent director since his election as a director at the 2008 Annual Meeting.

Each member of the Company's various standing committees also receives the following compensation related to service on these committees:

for attending an in person committee meeting (if any): \$2,000 for each meeting of the audit committee; \$2,000 for each meeting of the nominating and corporate governance committee; and \$2,000 for each meeting of the compensation committee; and

for attending a telephonic committee meeting (if any): \$1,000 for each meeting of the audit committee; \$1,000 for each meeting of the nominating and corporate governance committee; and \$1,000 for each meeting of the compensation committee.

The chairperson of the audit committee, nominating and corporate governance committee and compensation committee also receives an annual cash retainer of \$20,000, \$5,000 and \$5,000, respectively, payable in equal quarterly installments.

Our non-management directors also receive, on or around January 1 of each year, in respect of their service for the prior fiscal year, \$57,000, or \$77,000 if serving as the Company's chairman, which is encouraged to be used to purchase shares of Trust Stock. Consequently, each non-management director receives that number of shares of Trust stock that can be purchased with \$57,000 or \$77,000, as applicable, at the market price on the date of purchase.

The following table provides compensation paid or accrued by us to our non-management directors in 2013:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non- Qualified Deferred	All other Compensation (\$)	Total
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	Compensation Earnings (\$)					
C. Sean Day ⁽¹⁾	\$ 102,000	\$ 77,000 ⁽²⁾	\$	\$	\$	\$ 179,000
Gordon M. Burns	74,000	57,000 ⁽²⁾				131,000
Harold S. Edwards	81,000	57,000 ⁽²⁾				138,000
D. Eugene Ewing	94,000	57,000 ⁽²⁾				151,000
Mark H. Lazarus	71,000	57,000 ⁽²⁾				128,000
Totals ⁽⁴⁾	\$ 422,000	\$ 305,000	\$ (3)	\$ (3)	\$ (3)	\$ 727,000

- (1) In recognition of his seven years of service as the Company's chairman, in February of 2013, the Company made a one-time donation in the amount of \$9,000 in the name of Mr. Day to the Lawhill Maritime Center, a not for profit organization based in South Africa. Such donation was approved by the Company's nominating and corporate governance committee as well as its compensation committee. Each of the Company's directors also made a donation in Mr. Day's name to the Lawhill Maritime Center.
- (2) Represents 3,969 fully vested shares for C. Sean Day and 2,938 fully vested shares for each other director pursuant to the annual award described above. These shares were purchased by the directors on January 2, 2014.
- (3) The Company does not have any stock option, non-equity incentive or deferred compensation arrangements for any of its directors.
- (4) Beginning January 1, 2014, James J. Bottiglieri will be compensated as a non-management director.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We have entered into a management services agreement, which we refer to as the Management Services Agreement with Compass Group Management LLC, which we refer to as our Manager. The Management Services Agreement defines our Manager's duties and responsibilities and is subject to the oversight and supervision of our Board. Our Manager is responsible for the conduct of the Company's day-to-day business and affairs and is entitled to receive a management fee for the provision of its services. The current executive officers, Messrs. Offenberg and Faulkingham, are employed by our Manager and are seconded to the Company, which means that they have been assigned by our Manager to work for the Company during the term of the Management Services Agreement between us and our Manager. Mr. Faulkingham began his role as chief financial officer on November 30, 2013 which was the same day Mr. Bottiglieri retired from his position as chief financial officer. The Company does not have any other executive officers. Our Manager determines and pays the compensation of these officers who we refer to as the named executives, subject to the reimbursement described below.

Overview of our Executive Compensation

We do not pay any compensation to our executive officers seconded to us by our Manager. Our Manager is responsible for the payment of compensation to the executive officers seconded to us. We do not reimburse our Manager for the compensation paid to our chief executive officer, Alan B. Offenberg. We do, however, pay our Manager a quarterly management fee and our Manager uses the proceeds from the management fee, in part, to pay compensation to Mr. Offenberg. The Company has the right to require the Manager to replace Mr. Offenberg as the Company's chief executive officer, subject to the terms of the Management Services Agreement with our Manager.

Pursuant to the Management Services Agreement with our Manager, we reimburse our Manager for the compensation paid to our chief financial officer. We reimbursed our Manager for Mr. James J. Bottiglieri through November 30, 2013 and reimbursed our Manager for Mr. Ryan J. Faulkingham from November 30, 2013. Such reimbursement is approved by the Company's compensation committee. The terms and conditions of Mr. Faulkingham's employment are governed by an employment agreement between Mr. Faulkingham and our Manager. The terms and conditions of Mr. Bottiglieri's employment were governed by an employment agreement between Mr. Bottiglieri and our Manager through the date of his resignation on November 30, 2013. A description of each of Mr. Faulkingham's and Mr. Bottiglieri's compensation is set forth below.

The discussion that follows relates to the compensation policies and philosophy for Mr. Faulkingham and Mr. Bottiglieri only, as the compensation of the Company's chief executive officer is not reimbursed by the Company.

Elements of Our Executive Compensation and How Each Relates to Our Overall Compensation Objectives

Mr. Faulkingham's employment agreement provides that his annual compensation is to be paid through a combination of a base salary and an annual cash bonus. Both elements are designed to be competitive with comparable employers in our industry and intended to provide incentives and reward Mr. Faulkingham for his contributions to the Company.

Mr. Bottiglieri's employment agreement provided that his annual compensation was to be paid through a combination of a base salary and an annual cash bonus. Both elements were designed to be competitive with comparable employers in our industry and intended to provide incentives and reward Mr. Bottiglieri for his contributions to the Company.

Objectives of Our Executive Compensation and What it is Designed to Reward

The primary objective of the aforementioned elements of our executive compensation is to attract and retain a qualified and talented individual to serve as chief financial officer. Through payment of a competitive base salary, we recognize particularly the experience, skills, knowledge and responsibilities required of the chief financial officer position. An annual cash bonus is designed to reward our chief financial officer's individual performance during the year and can therefore be variable from year to year.

How We Determine the Amount of Each Element for our Chief Financial Officer

To determine the amount of our chief financial officer's compensation, we consider competitive market practices by reviewing publicly available information across our industry and related industries. We do not use compensation consultants at this time. When establishing each of Mr. Faulkingham's and Mr. Bottiglieri's 2013 base salary, the compensation committee and management considered a number of factors including: his seniority, the functional role of his position, the level of his responsibility, the ability to replace him and his base salary during the prior year. The compensation committee also considered the most recent advisory vote on executive compensation, which overwhelmingly approved the compensation of our named executive officers, and whether such compensation continues to achieve the objective of appropriately rewarding our chief financial officer for his contributions to our business, including its growth and profitability.

Our chief financial officer's compensation is reviewed on an annual basis. Factors considered in determining increases to our chief financial officer salary level are: the employment market for chief financial officers of public entities comparable to the Company in size and industry, the breadth and scope of the responsibilities of the chief financial officer within our organization, his performance in prior years (as assessed by our compensation committee in accordance with the factors as outlined below) and the retention of our chief financial officer. We expect the salary of our current chief financial officer, Mr. Faulkingham, to increase annually with adjustments largely reflecting additional responsibilities assumed, growth of the Company and the related increase in the complexity of the position of chief financial officer within our organization, to appropriately reward Mr. Faulkingham for his contributions to our growth and profitability, thereby retaining his services and to compensate for cost of living increases.

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The annual cash bonus element of our executive compensation policy is determined on a discretionary basis and is largely based upon the job performance of our chief financial officer in completing his responsibilities. In determining the amount of each of Mr. Faulkingham and Mr. Bottiglieri's annual cash bonus, our compensation committee assesses his performance in respect of: (i) the nature and quality of the internal and financial reporting controls; (ii) management of the Company's financial accounting staff; (iii) the performance of the Company's financial accounting function and its ability to perform assigned tasks on a timely basis; (iv) his and the financial accounting staff's interactions with the Company's outside independent auditors on the strength of the controls environment, the strength of the Company's finance function generally and the level of cooperation received by such independent auditors in the conduct of the Company's audit; (v) his and the financial accounting staff's interaction with the management of the businesses in which the Company owns a controlling interest; and (vi) his lead role in capital raises and in investor relations. Our chief financial officer's bonus is not based upon the performance of the Company and is unrelated to the amount of his base salary.

Summary Compensation Table

The following Summary Compensation Table summarizes the total compensation accrued for our named executive officers in each of 2013, 2012 and 2011 and should be read in conjunction with the Compensation Discussion and Analysis.

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Awards (\$)	Stock Options (\$)	Change In Pension Value And Non- Qualified Incentive Compensation (\$)	Deferred Compensation (\$)	All Other Compensation (\$)	Total (\$)
Alan B. Offenberg Chief Executive Officer (1)	2013 2012 2011								
Ryan J. Faulkingham Chief Financial Officer (2)	2013	232,333	150,000					45,967 (4)	428,300
James J. Bottiglieri Chief Financial Officer (2)	2013 2012 2011	391,875 415,000 405,000	320,000 320,000 300,000					49,651 (3) 48,981 (3) 42,827 (3)	761,526 783,981 747,827

- (1) Mr. Alan B. Offenberg, who became our chief executive officer on February 16, 2011, was seconded to us by our Manager and does not receive compensation directly from us. We pay our Manager a quarterly management fee and Mr. Offenberg as a member of our Manager, received distributions from our Manager periodically after payment of all compensation and other expenses to our Manager's employees. We incurred approximately \$15.5 million, \$14.4 million and \$13.6 million of management fees under the Management Services Agreement during

each of 2013, 2012 and 2011, respectively, and approximately \$3.2 million, \$3.4 million and \$4.2 million of offsetting management fees under our Offsetting Management Services Agreements during each of 2013, 2012 and 2011, respectively. See the Sections CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS Contractual Arrangements with Related Parties Management Services Agreement and CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS Contractual Arrangements with Related Parties Offsetting Management Services Agreements for additional information about the Management Services Agreement and our Offsetting Management Services Agreements. Mr. Offenberg did not receive a salary or other compensation from our Manager. Accordingly, no compensation information for Mr. Offenberg is reflected in the above compensation table.

- (2) Neither Mr. Faulkingham, who became our chief financial officer on November 30, 2013, nor Mr. Bottiglieri participated in any stock award, stock option, non-equity incentive or nonqualified deferred stock compensation plans.
- (3) Includes the following payments paid on behalf of Mr. Bottiglieri:

Year	Healthcare Contributions (\$)	Insurance Premiums (\$)	401-K Contributions (\$)	Total (\$)
2013	24,775	4,476	20,400	49,651
2012	27,601	1,680	20,000	48,981
2011	21,691	1,536	19,600	42,827

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(4) Includes the following payments paid on behalf of Mr. Faulkingham:

Year	Healthcare Contributions	Insurance Premiums	401-K Contributions	Total
	(\$)	(\$)	(\$)	(\$)
2013	23,352	2,215	20,400	45,967

Grants of Plan Based Awards

None of our named executives participate in or have account balances in any plan based award programs.

Employment Agreements

Employment Agreement with Ryan J. Faulkingham. During fiscal year 2013, our Manager entered into an employment agreement with Mr. Faulkingham. The Manager has seconded Mr. Faulkingham to the Company to act as its chief financial officer.

On February 27, 2014, the compensation committee considered and approved an increase in Mr. Faulkingham's base salary from \$335,000 to \$350,000. Such increase in base salary became effective as of January 1, 2014. The Manager has the right to increase, but not decrease, Mr. Faulkingham's base salary during the term of his employment agreement. The employment agreement with our Manager provides that Mr. Faulkingham is entitled to receive an annual bonus as determined in the sole judgment of our Manager, subject to ratification and approval of the reimbursement of such amount by the compensation committee of our Board. Pursuant to Mr. Faulkingham's employment agreement, if Mr. Faulkingham terminates his employment for good reason, or if the Manager terminates his employment without proper cause, Mr. Faulkingham will be entitled to receive his base salary rate plus an amount equal to his bonus for the immediately preceding year. The employment agreement prohibits Mr. Faulkingham from soliciting any of the Manager's or the Company's employees for a period of two years after the termination of his employment. The employment agreement also requires that Mr. Faulkingham protect the Company's confidential information.

Employment Agreement with James J. Bottiglieri. During fiscal year 2008, our Manager entered into an amended and restated employment agreement with Mr. Bottiglieri. The Manager had seconded Mr. Bottiglieri to the Company to act as its chief financial officer. Mr. Bottiglieri retired from his position as chief financial officer on November 30, 2013.

On March 1, 2013, the compensation committee considered and approved an increase in Mr. Bottiglieri's base salary from \$415,000 to \$427,500. Such increase in base salary became effective as of January 1, 2013. The Manager had the right to increase, but not decrease, Mr. Bottiglieri's base salary during the term of his employment agreement. Mr. Bottiglieri's employment agreement provided that Mr. Bottiglieri was entitled to receive an annual bonus, which could not be less than \$100,000, as determined in the sole judgment of our Manager, subject to ratification and approval of the reimbursement of such amount by the compensation committee of our Board. Pursuant to Mr. Bottiglieri's employment agreement, if Mr. Bottiglieri terminated his employment for good reason or without good reason, or if the Manager terminated his employment other than for cause, Mr. Bottiglieri would be entitled to receive his accrued but unpaid base salary plus \$400,000. As a result of Mr. Bottiglieri's termination of his employment, the Company will pay Mr. Bottiglieri \$400,000 in June of 2014. The employment agreement prohibits Mr. Bottiglieri from soliciting any of the Manager's or the Company's employees for a period of two years after the termination of his employment. The employment agreement also requires that Mr. Bottiglieri protect the Company's confidential information.

Hedging Transactions

To prevent speculation or hedging of named executive officers and directors interests in our equity, the Compass Diversified Holdings, Compass Group Diversified Holdings LLC (Including Subsidiaries) and Compass Group Management LLC Policy Regarding Insider Trading, Tipping and Other Wrongful Disclosures, which we refer to as our Insider Trading Policy, prohibits short sales, hedging transactions and short-term trading (unless pursuant to stock option exercises or other employee benefit plan acquisitions) of the Trust s stock, and the purchase or sale of options, puts, calls or any derivative security that has similar characteristics, by our named executives and directors.

Outstanding Equity Awards at Fiscal Year-End; Option Exercises and Stock Vested

None of our named executives have ever held options to purchase interests in us or other awards with values based on the value of our interests.

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Pension Benefits

None of our named executives participate in or have account balances in qualified or nonqualified defined benefit plans sponsored by us.

Nonqualified Deferred Compensation

None of our named executives participate in or have account balances in nonqualified defined contribution plans or other deferred compensation plans maintained by us.

Potential Payments upon Termination or Change in Control

The following summarizes potential payments payable to our executive officers upon termination of employment or a change in control.

Employment Agreement with Ryan J. Faulkingham. Pursuant to his employment agreement, if Mr. Faulkingham terminates his employment for good reason, or if the Manager terminates his employment without proper cause, Mr. Faulkingham will be entitled to receive a lump sum payment equal to his base salary rate plus an amount equal to his bonus for the immediately preceding year.

Employment Agreement with James J. Bottiglieri. Mr. Bottiglieri terminated his employment on November 30, 2013. Mr. Bottiglieri's employment agreement provided that, if he terminated his employment for good reason or without good reason, or if the Manager terminated his employment without cause, Mr. Bottiglieri would be entitled to receive a lump sum payment equal to his accrued but unpaid base salary plus \$400,000. The Company accrued this obligation to Mr. Bottiglieri over a six year period and this obligation during fiscal year 2012 became a fully accrued obligation to Mr. Bottiglieri. The payment of this \$400,000 obligation will be made in June of 2014.

Supplemental Put Agreement. Certain individuals at our Manager are also the owners of allocation interests in the Company. The owners of the allocation interests in the Company are sometimes referred to herein collectively as the Allocation Member. Mr. Offenberg, through his ownership interest in our Manager, shares in a portion of the proceeds of the allocation interests. Additionally, Mr. Bottiglieri indirectly shared in approximately 5% of the proceeds of the allocation interests prior to resignation on November 30, 2013. Concurrent with our initial public offering, we entered into a supplemental put agreement with our Manager, which we refer to as the Supplemental Put Agreement. The Supplemental Put Agreement was terminated on July 1, 2013. Pursuant to the Supplemental Put Agreement our Manager had the right to cause the Company to purchase the allocation interests then owned by our Manager upon either (i) the termination of the Management Services Agreement (other than as a result of our Manager's resignation), or (ii) the resignation of our Manager on any date that is at least three years after the closing of our initial public offering. Essentially, the put rights granted to our Manager required us to acquire our Manager's initial allocation interests in the Company at a price based on the increase in fair value in the Company's businesses over its basis in those businesses. If we terminated the Management Services Agreement, the payment to the Manager would have been determined at two times the increase in fair value in the Company's businesses over the Company's initial basis in those businesses. Each fiscal quarter the fair value of our subsidiaries was estimated for the purpose of determining the Company's potential liability associated with the Supplemental Put Agreement. Any change in the potential liability was accrued currently as a non-cash charge to earnings. See the section "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS - Contractual Arrangements with Related Parties - Termination of Supplemental Put Agreement" for additional information related to the termination of the Supplemental Put Agreement.

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**SHARE OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS
AND PRINCIPAL SHAREHOLDERS**

The following table sets forth information regarding the beneficial ownership of shares of Trust stock by each person who is known to us to be the beneficial owner of more than five percent of the outstanding shares of Trust stock, each of our directors and executive officers, and our directors and executive officers as a group as of March 31, 2014, based on 48,300,000 shares issued and outstanding. All holders of shares of Trust stock are entitled to one vote per share on all matters submitted to a vote of holders of shares of Trust stock. The voting rights attached to shares of Trust stock held by our directors, executive officers or major shareholders do not differ from those that attach to shares of Trust stock held by any other holder. Under Rule 13d-3 of the Exchange Act, beneficial ownership includes shares for which the individual, directly or indirectly, has voting power, meaning the power to control voting decisions, or investment power, meaning the power to cause the sale of the shares, whether or not the shares are held for the individual's benefit. The address for each director and executive officer is Sixty One Wilton Road, Second Floor, Westport, Connecticut, 06880.

Name and Address of Beneficial Owner	Shares of Trust Stock Representing Sole Voting and/or Investment Power	Percent of Shares Outstanding
<i>5% Beneficial Owners</i>		
CGI Magyar Holdings LLC (1)	7,931,000	16.4%
T. RowePrice Associations, Inc. (2)	2,441,828	5.1%
<i>Directors, Nominees and Executive Officers:</i>		
C. Sean Day (3)	579,751	1.2%
Alan B. Offenberg	112,375	*
James J. Bottiglieri	29,667	*
Harold S. Edwards	50,099	*
D. Eugene Ewing (4)	38,101	*
Mark H. Lazarus	20,807	*
Gordon M. Burns (5)	192,375	*
Ryan J. Faulkingham	2,130	*
<i>All Directors, Nominees and Executive Officers as a Group</i>	1,025,305	2.1%

* Less than 1%.

- (1) The mailing address for CGI Magyar Holdings LLC is Belvedere Building, 4th Floor, 69 Pitts Bay Road, Hamilton HM 08, Bermuda. Path Spirit Limited is the ultimate controlling person of CGI Magyar Holdings LLC. The mailing address for Path Spirit Limited is 10 Norwich Street, London, EC4A 1BD, United Kingdom.
- (2) The mailing address for T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202. These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. (Price Associates) serves as an investment adviser with power to direct investments and/or sole power to vote the

securities. For the purpose of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

- (3) 403,188 of these shares are beneficially owned directly by Mr. Day and 176,563 additional shares are beneficially owned by Mr. Day through the Day Family 2007 Irrevocable Trust.
- (4) 2,000 of these shares are beneficially owned by Mr. Ewing and directly owned by Mr. Ewing's spouse.
- (5) 80,369 of these shares are beneficially owned directly and indirectly by Mr. Burns, 12,987 of these shares are beneficially owned by Mr. Burns through the Talley Burns Executor Trust, 12,824 of these shares are beneficially owned by Mr. Burns through the Peter Burns Executor Trust, 80,000 of these shares are beneficially owned by Mr. Burns through the Gordon M. Burns 2009 Revocable Trust and 6,195 of these shares are beneficially owned by Mr. Burns through the Burns Family Trust.

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The following table sets forth certain information regarding the beneficial ownership of the Company's two classes of equity interests.

	Number of Interests (1)	Percent of Class
Sostratus LLC (2)		
Allocation interests (3)	1,000	100%
Trust interests		
Compass Diversified Holdings (4)		
Allocation interests)		
Trust interests	48,300,300	100%

- (1) Compass Group Diversified Holdings, LLC has two classes of equity interests: allocation interests and trust interests.
- (2) Prior to June 27, 2013, Compass Group Management LLC held 100% of the allocation interests.
- (3) Mr. Offenber, may be deemed to be the beneficial owner of 16% of the allocation interests. Mr. Bottiglieri may be deemed to be the beneficial owner of approximately 5% of the allocation interests in that he indirectly shared in approximately 5% of the proceeds of the allocation interests prior to his resignation on November 30, 2013. Mr. Day may be deemed to be the beneficial owner of 5% of the allocation interests in that he indirectly shares in 5% of the proceeds of the allocation interests.
- (4) Each beneficial interest in the Trust corresponds to one underlying trust interest of the Company. Unless the Trust is dissolved, it must remain the sole holder of 100% of the trust interests and at all times the Company will have outstanding the identical number of trust interests as the number of outstanding shares of stock of the Trust. As a result of the corresponding interests between shares and trust interests, each holder of shares identified in the table above relating to the Trust is deemed to beneficially own a correspondingly proportionate interest in the Company.

The following table sets forth certain information as of March 31, 2014, regarding the beneficial ownership by Mr. Day of equity interests in Advanced Circuits, Inc., one of our businesses.

Owner	Entity	Number of Shares (1)	Percent of Class
C. Sean Day	Compass AC Holdings, Inc. (sole shareholder of Advanced Circuits, Inc.), Series B Common Stock	10,000	0.7%

- (1) Mr. Day is the direct owner of 6,480 shares of Series B Common Stock and Mr. Day's children are the owners in the aggregate of 3,520 shares of Series B Common Stock.

Securities Authorized for Issuance under Equity Compensation Plans.

There are no securities currently authorized for issuance under an equity compensation plan.

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AUDIT COMMITTEE REPORT

Our audit committee is composed of three independent directors, all of whom are financially literate. In addition, the Board has determined that Mr. Ewing, an independent director and the chairman of the audit committee, qualifies as an audit committee financial expert as defined by the SEC. The audit committee operates under a written charter, which reflects the NYSE listing standards and Sarbanes-Oxley Act requirements regarding audit committees. A copy of the audit committee charter is available on the Company's website at www.compassdiversifiedholdings.com.

The audit committee's primary role is to assist the Board in fulfilling its responsibility for oversight of (1) the quality and integrity of the consolidated financial statements and related disclosures, (2) compliance with legal and regulatory requirements, (3) the independent auditors' qualifications, independence and performance and (4) the performance of our internal audit and control functions.

The Company's management is responsible for the preparation of the financial statements, the financial reporting process and the system of internal controls. The independent auditors are responsible for performing an audit of the financial statements in accordance with auditing standards generally accepted in the United States, and issuing an opinion as to the conformity of those audited financial statements to U.S. generally accepted accounting principles. The audit committee monitors and oversees these processes.

The audit committee has adopted a policy designed to ensure proper oversight of our independent auditor. Under the policy, the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing any other audit review (including resolution of disagreements among management, the Manager, and the auditor regarding financial reporting), or attestation services. In addition, the audit committee is responsible for pre-approving any non-audit services provided by the Company's independent auditors. The audit committee's charter also ensures that the independent auditor discusses with the audit committee important issues such as internal controls, critical accounting policies, any instances of fraud and the consistency and appropriateness of our accounting policies and practices.

The audit committee has reviewed and discussed with management and Grant Thornton LLP, the Company's independent auditor, the audited financial statements as of and for the year ended December 31, 2013. The audit committee has also discussed with Grant Thornton LLP the matters required to be discussed by Statement on Auditing Standards No. 16. In addition, the audit committee has received from the independent auditor its written report required by Public Company Accounting Oversight Board Rule 3526 (Auditor Independence) and has discussed its independence from the Company and its management. The audit committee also considered whether the non-audit services provided by Grant Thornton LLP to us during 2013 were compatible with its independence as auditor.

Based on these reviews and discussions, the audit committee has recommended to the Board, and the Board has approved, the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Members of the Audit Committee

D. Eugene Ewing, Chairman
Harold S. Edwards
Gordon M. Burns

The information contained in the report above shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Exchange Act or the Securities Act of 1933, as amended, except to the extent that we specifically incorporate it by reference in such filing.

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COMPENSATION COMMITTEE REPORT

We have reviewed and discussed with management the Compensation Discussion and Analysis provisions to be included in the Company's 2014 Proxy Statement filed pursuant to Section 14(a) of the Exchange Act. Based on the reviews and discussions referred to above, we recommend to the Board that the Compensation Discussion and Analysis referred to above be included in the Company's proxy statement.

Members of the Compensation Committee

Harold S. Edwards, Chairman

D. Eugene Ewing

Mark H. Lazarus

The information contained in the report above shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Exchange Act or the Securities Act of 1933, as amended, except to the extent that we specifically incorporate it by reference in such filing.

Table of Contents**CORPORATE GOVERNANCE****Corporate Governance Guidelines and Code of Ethics**

Our Board has adopted corporate governance guidelines that set forth our corporate governance objectives and policies and govern the functioning of the Board. Our corporate governance guidelines are available on our website at www.compassdiversifiedholdings.com and in print [link=](#)top width=96>

	1,782
Liquid revenues and other	4,948
	2,393
Total revenues	46,008
	40,337
Operating expenses	
Operating and maintenance	7,550
	7,072
General and administrative	4,927
	6,062
Depreciation and amortization	7,912
	7,254
Other taxes	1,689
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	1,592
Total operating expenses	22,078
	21,980
Operating income	\$ 23,930
	\$ 18,357

OPERATING STATISTICS

Natural gas transportation volumes (in Mdth)

For unaffiliated customers

62,717

55,602

For Questar Gas

40,857

43,739

For other affiliated customers

3,746

1,976

Total transportation

107,320

101,317

Transportation revenue (per dth)

\$0.28

\$0.26

Firm-daily transportation demand at

March 31 (Mdth)

2,155

1,625

Questar Pipeline net income was \$11.4 million in the first quarter of 2006 compared with \$8.3 million in the first quarter of 2005. Revenues increased in the 2006 quarter due to new transportation contracts and higher liquid revenues.

Revenues

Gas transportation volumes increased in the first quarter of 2006 over the prior year quarter due to new transportation contracts. Following is a summary of major changes in Questar Pipeline's revenues for the three months ended March 31, 2006, compared with the same period of 2005:

	3 Months Ended
	March 31, 2006
	Compared with 2005
	(in thousands)
Transportation	
New transportation contracts	\$4,450
Expiration of transportation contracts	(564)
Other transportation	(401)
Storage	(19)
Gas processing	(350)
Liquid revenues and other	
Change in liquid revenues	1,480
Change in gathering revenue	165
Park and loan revenue	984
Other	(74)
Increase	\$5,671

As of March 31, 2006, Questar Pipeline had firm-transportation contracts of 2,155 Mdth per day compared with 1,625

Mdth per day as of March 31, 2005. Questar Pipeline has expanded its transportation system in response to growing regional natural gas production and transportation demand. In the second quarter of 2005, Questar Pipeline began operating a lateral to an electric generation power plant with a capacity of 190 Mdth per day. In the fourth quarter of 2005, Questar Pipeline completed an expansion of its southern system, which added capacity of 102 Mdth per day. On January 1, 2006, Questar Pipeline subsidiary, Questar Overthrust Pipeline, placed an interconnection with Kern River Pipeline in service, which added capacity of 220 Mdth per day. Each of these expansion projects was fully subscribed with long-term contracts.

Questar Gas is Questar Pipeline's largest transportation customer with contracts for 951 Mdth per day, including 50 Mdth per day for winter-peaking service. The majority of Questar Gas's transportation contract demand extends through mid 2017.

Questar Pipeline's primary storage facility is Clay Basin in eastern Utah. This facility is 100% subscribed under long-term contracts. In addition to Clay Basin, Questar Pipeline also owns and operates three smaller aquifer gas storage facilities. Questar Gas has contracted for 26% of firm-storage capacity at Clay Basin for terms extending from three to 14 years and 100% of the firm-storage capacity at the aquifer facilities for terms extending for 13 years.

Questar Pipeline charges FERC-approved transportation and storage rates that are based on straight-fixed-variable rate design. Under this rate design all fixed costs of providing service including depreciation and return on investment are recovered through the demand charge. About 95% of Questar Pipeline costs are fixed and recovered through these demand charges. Questar Pipeline's earnings are driven primarily by demand revenues from firm shippers. Operating costs that vary based on throughput are recovered through volumetric charges. Since demand charges are based on contract levels and volumetric charges are about 5%, period-to-period changes in firm-transportation volumes do not have a significant impact on earnings.

Liquid revenues increased in the first quarter of 2006 over the first quarter of 2005 due to a 63% increase in volumes of liquids sold and a 43% increase in sales price. Liquid revenues were also impacted by the fuel-gas reimbursement percentage proceedings as discussed below.

Revenues from park and loan services increased in the first quarter of 2006 over the first quarter of 2005 due to increased demand. Questar Pipeline shares 75% of its park and loan revenues with customers once it has received revenues equal to the cost of service. Any additional revenues received in 2006 will be shared with customers.

Fuel-Gas Reimbursement Percentage (FGRP)

During the fourth quarter of 2004, the FERC issued an order to Questar Pipeline in a case involving the annual FGRP. The FERC previously granted Questar Pipeline's request to increase the FGRP effective January 1, 2004. In its order the FERC approved the FGRP but also ruled that Questar Pipeline was required to credit to transportation customers proceeds from the sale of natural gas liquids recovered from its hydrocarbon dewpoint facilities at the Kastler plant in

northeastern Utah. Questar Pipeline accrued a potential liability equal to any liquid revenues from the dewpoint plant. Through June 30, 2005, Questar Pipeline had reduced revenues by \$5.4 million as a credit to customers, including \$0.5 million recorded in the first quarter of 2005.

Questar Pipeline made an annual FGRP filing with the FERC on November 30, 2004, requesting an increase in the FGRP to 2.6%. On December 30, 2004, the FERC approved the request on an interim basis subject to refund and final resolution of the 2004 FGRP proceeding. Several shippers filed comments with the FERC protesting the FGRP level.

On June 17, 2005, Questar Pipeline filed an uncontested offer of settlement with the FERC to resolve the outstanding issues in the 2004 and 2005 FGRP filings. This settlement with customers was approved July 26, 2005, and contains the following terms: (a) the settlement will cover the period from June 1, 2005 through December 31, 2007; (b) no adjustments will be made to FGRP amounts collected by Questar Pipeline prior to June 2005; (c) one-half of the Kastler plant liquid revenues from August 2001 through December 2007 will be refunded to customers and the remaining revenues will be retained by Questar Pipeline; and (d) Questar Pipeline will reduce the FGRP amount collected from customers from 2.6% to 2.1% effective June 1, 2005. This percentage consists of 1.95% of ongoing FGRP related volumes and 0.15% of prior period amortization of volumes. If actual ongoing volumes are less than the 1.95%, the difference will be shared equally with customers beginning January 2006. The FGRP rate for 2006 is 1.84% plus the 0.15% amortization of prior volumes.

Questar Pipeline recorded the impact of the settlement in third quarter 2005 increasing liquid revenues by \$2.7 million and net income by \$1.7 million.

Expenses

Operating, maintenance, general and administrative expenses decreased \$0.7 million in the first quarter of 2006 compared with the first quarter of 2005. Most of this decrease is due to a change in fuel gas procedures at the company's Price, Utah processing plant. Beginning in July 2005 customers at the plant began supplying their own fuel gas. Operating, maintenance, general and administrative expenses per decatherm transported declined from \$0.130 in the first quarter of 2005 to \$0.116 in the first quarter of 2006.

Depreciation expense increased 9% in the first quarter of 2006 over the first quarter of 2005 due to investment in pipeline expansions.

Clay Basin Storage

Questar Pipeline conducts periodic pressure tests on its Clay Basin storage facility. Beginning with a test in April 2002, the company noted a discrepancy between the book volumes of cushion gas at Clay Basin and the volumes implied by pressure data. Questar Pipeline retained a reservoir consultant to model the reservoir and determine the size and cause of the discrepancy. The company conducted additional pressure tests in April 2004, October 2004,

April 2005, October 2005 and April 2006 to validate the model. Test results for the April 2006 test have not yet been evaluated.

The reservoir model indicates from 0 to 3.8 Bcf of gas may be missing from Clay Basin, with the most likely amount of 3.2 Bcf. The gas loss is due to a combination of cumulative imprecision inherent in natural gas measurement devices and reservoir heterogeneity that impacts storage reservoir performance. There is no indication that the reservoir is leaking. The Clay Basin reservoir is functioning as expected to meet customer requirements.

Questar Pipeline has proposed to the FERC that the loss of gas be recorded as a reduction of native gas remaining in the reservoir which would not impact Questar Pipeline net income. Alternatively, if the FERC requires Questar Pipeline to adjust recoverable cushion gas, earnings could be reduced by about \$3 million after taxes.

Questar Gas

Questar Gas distributes natural gas in Utah, southwestern Wyoming and southeastern Idaho. Following is a summary of Questar Gas's financial and operating results for the first quarter of 2006 compared with the first quarter of 2005:

	3 Months Ended	
	March 31,	
	2006	2005
	(in thousands)	
OPERATING INCOME		
Revenues		
Residential and commercial sales	\$441,493	\$322,046
Industrial sales	9,640	10,407
Transportation for industrial customers	1,611	1,607
Other	15,772	10,891
Total revenues	468,516	344,951
Cost of natural gas sold	371,142	251,597
Margin	97,374	93,354
Operating expenses		
Operating and maintenance	21,074	18,025
General and administrative	9,613	10,886
Depreciation and amortization	11,572	11,306
Other taxes	3,608	3,186
Total operating expenses	45,867	43,403

Operating income	\$51,507	\$49,951
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OPERATING STATISTICS

Natural gas volumes (in Mdth)

Residential and commercial sales	42,265	39,919
Industrial sales	1,151	1,703
Transportation for industrial customers	8,485	8,655
Total deliveries	51,901	50,277

Natural gas revenue (per dth)

Residential and commercial sales	\$10.45	\$8.07
Industrial sales	8.37	6.11
Transportation for industrial customers	0.19	0.19

Heating degree days warmer than normal	2%	5%
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Average temperature adjusted usage

per customer (dth)	48.9	49.9
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Customers at March 31,	834,252	800,523
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Questar Gas net income was \$29.4 million in the first quarter of 2006 compared with \$28.7 million in the first quarter of 2005. First quarter results benefited from settlement of a long-standing regulatory dispute with the State of Utah. Excluding the settlement, Questar Gas net income was about flat with the first quarter of 2005. The impact of customer growth was partially offset by declining usage per customer.

Margin Analysis

Questar Gas margin (revenues less gas costs) increased \$4.0 million in the first quarter of 2006 compared to the first quarter of 2005. Following is a summary of major changes in Questar Gas margin:

3 Months Ended

March 31, 2006

Compared with 2005
(in thousands)

New customers	\$ 3,134
Decreased usage per customer	(1,585)
Gas processing revenues	
collected from customers	1,417
Interest on past-due receivables	290

Recovery of bad debt gas costs	1,439
Other includes customers shifting between	
rate schedules	(675)
Increase	\$ 4,020

Residential and commercial sales volumes increased 6% in the first quarter of 2006 over the first quarter of 2005 as a result of increased customers. These increases were partially offset by decreased usage per customer. At March 31, 2006, Questar Gas was serving 834,252 customers, a 4.2% increase over the prior year. Housing construction in Utah and Wyoming remained strong, driven by population growth. Usage per customer, adjusted for normal temperatures, was down 2% in the first quarter of 2006 compared with 2005. Over the long-term, usage per customer has been decreasing due to more efficient appliances and homes and customer response to higher prices.

Weather, as measured in degree days, was 2% warmer than normal in the first quarter of 2006 compared with 5% warmer than normal in the first quarter of 2005. A weather-normalization adjustment on customer bills generally offsets financial impacts of moderate temperature variations.

Industrial deliveries (including sales and transportation) declined 7% in the first quarter of 2006 compared with 2005 primarily driven by lower power-generation requirements in the current period.

As discussed below, Questar Gas received rate coverage for gas processing costs in the first quarter of 2006 amounting to \$1.4 million.

The increase in bad-debt costs as discussed below has been partially offset with recovery of the gas-cost portion of bad debt costs through the gas balance account. This increased the first quarter 2006 margin by \$1.4 million.

Expenses

Cost of natural gas sold increased 48% in the first quarter of 2006 compared with 2005 due primarily to increased gas purchase cost per dth. Questar Gas accounts for purchased-gas costs in accordance with procedures authorized by the Public Service Commission of Utah (PSCU) and the PSCW. Purchased-gas costs that are different from those provided for in present rates are accumulated and recovered or credited through future rate changes. As of March 31, 2006, Questar Gas had a \$5.7 million balance in the purchased-gas adjustment account representing gas costs incurred but not yet recovered from customers. Rates in Utah effective in April 2006 were 26% higher than a year earlier.

Operating, maintenance, general and administrative expenses increased \$1.8 million or 6% in the first quarter of 2006 compared with 2005. Increased bad debt costs accounted for \$1.5 million of the increase. As noted earlier, the gas-cost

portion of bad debts is recovered through the gas balance account.

Depreciation expense increased 2% in the first quarter of 2006 compared with 2005 due to plant additions from customer growth.

Gas processing dispute

On August 1, 2003, the Utah Supreme Court issued an order reversing an August 2000 decision made by the PSCU concerning certain natural gas processing costs incurred by Questar Gas to manage the heat content of its gas supply. As a result of the court's order, Questar Gas recorded a \$29 million liability for a potential refund to gas distribution customers. This liability included revenue received for processing costs and interest from June 1999 through September 2004. On August 30, 2004, the PSCU ruled that Questar Gas failed in 1999 to prove that its decision to contract for gas processing with an affiliate was prudent. Questar Gas reduced its rates on September 1, 2004, to eliminate the collection of gas processing costs and on October 1, 2004, began refunding previously collected costs, plus interest, over a 12-month period.

In response to a Questar Gas petition, the PSCU clarified that its order did not preclude recovery of ongoing and certain past processing costs. Questar Gas requested ongoing rate coverage for gas processing costs in its pass-through filings. On January 31, 2005, Questar Gas filed a rate request with the PSCU to recover \$5.7 million per year of gas processing costs through its gas-balance account. The \$5.7 million is Utah's share of the estimated \$6 million annual cost of operating the gas processing plant. The Wyoming share has been recovered in rates.

In October 2005, Questar Gas, the Utah Division of Public Utilities and the Committee of Consumer Services submitted a stipulation to the PSCU to resolve issues related to the recovery of gas processing costs. The PSCU held a hearing on October 20, 2005, and issued an order on January 6, 2006, approving the stipulation beginning on February 1, 2005. The stipulation provides for the recovery of 90% of the non fuel cost of service for processing and 100% of the fuel costs up to 360 Mdth per year. Half of the third-party processing revenues are shared with customers after the first \$0.4 million. In the fourth quarter of 2005 Questar Gas reduced expenses for recovery of gas costs by \$4.9 million for the period from February 1, 2005 to December 31, 2005. A request to the PSCU for rehearing of this issue was denied. The individuals who filed this request have appealed the issue to the Utah Supreme Court.

Rate Matters

The PSCU has scheduled hearings in May and June, 2006 to consider Questar Gas' proposed Conservation Enabling Tariff (CET). If the PSCU approves the CET as proposed, Questar Gas revenues would no longer be sensitive to changes in average temperature-adjusted usage per customer. In return for the adoption of the CET, Questar Gas would promote gas-use conservation. Questar Gas rates would also be adjusted to reflect lower depreciation rates, rate coverage for pipeline integrity costs, an increased level of long-term debt in its capital structure, and possibly other changes.

Consolidated Results after Operating Income

Income from unconsolidated affiliates

Gas Management has a 50% interest in Rendezvous, which provides gas-gathering services for the Pinedale and Jonah producing areas of western Wyoming. Gas Management's share of Rendezvous' earnings before tax increased to \$1.7 million in the 2006 quarter versus \$1.5 million in 2005. Rendezvous gathering volumes increased 10% in the first quarter of 2006 compared to the year earlier period.

Interest expense

Interest expense rose in the first quarter of 2006 because of higher interest rates.

Interest and Other Income

Interest and other income decreased in the first quarter of 2006 compared to the same period of 2005. Questar Pipeline capitalized \$0.2 million of carrying costs on a construction project in first quarter of 2005.

Income taxes

The effective combined federal and state income tax rate was 37.0% in the 2006 and 2005 quarters.

Liquidity and Capital Resources

Operating Activities

	3 Months Ended March 31,	
	2006	2005
	(in thousands)	
Net income	\$137,156	\$ 95,171
Noncash adjustments to net income	83,979	65,231

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Changes in operating assets and liabilities	100,131	5,139
Net cash provided from operating activities	\$321,266	\$165,541

Net cash provided from operating activities increased 94% in the first quarter of 2006 compared to the same quarter of 2005 because of higher net income and lower hedging collateral deposits. Hedging collateral deposits declined to zero at March 31, 2006, compared with \$83.4 million at March 31, 2005, as a result of the elimination of credit support requirements with several counterparties, increases in the amount of credit allowed by other counterparties before Market Resources is required to deposit collateral, lower commodity prices and the settlement of hedge contracts.

Investing Activities

A comparison of capital expenditures for the first three months of 2006 and 2005 plus a forecast for calendar year 2006 are presented below:

	3 Months Ended		Forecast
	March 31,		12 Months Ended
	2006	2005	December 31, 2006
Market Resources	\$172,150	\$102,169	\$490,400
Questar Pipeline	1,463	8,274	122,400
Questar Gas	23,214	18,650	99,100
Corporate and other operations	78	251	800
Total	\$196,905	\$129,344	\$712,700

Market Resources expanded Rockies, Uinta Basin and Midcontinent drilling programs represented the majority of the increase in capital expenditures for the first three months of 2006 compared to the 2005 period.

Financing Activities

Net cash provided from operating activities was sufficient to fund net capital expenditures, repay \$94.5 million of short-term debt and pay dividends in the first quarter of 2006. Total debt, including the current portion of long-term debt, was 35% of total capital at March 31, 2006. Questar Gas borrowed \$50 million under a five-year term loan in the fourth quarter of 2005 and used the proceeds to repay short-term debt.

The Company had \$500 million of short-term lines of credit available at March 31, 2006, but no amount borrowed.

Market Resources filed a registration statement with the SEC on April 7, 2006, under the shelf registration process. Once the registration is approved, Market Resources may sell debt securities, as described in the prospectus that was part of the registration statement, in one or more offerings, up to a total of \$350 million. Unless otherwise set forth in a prospectus supplement, Market Resources intends to use the net proceeds from the potential sale of the debt securities for general corporate purposes, including repayment of the \$200 million aggregate principal amount of its 7% Notes due January 16, 2007, working capital and business expansion.

Moody's completed a ratings update of Questar and its subsidiaries and issued a stable outlook. In its report dated April 11, 2006, Moody's affirmed Questar's P-2 commercial paper rating, Market Resources Baa3 senior unsecured long-term debt rating and A-2 ratings for senior unsecured long-term debt issued by Questar Pipeline and Questar Gas.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Questar's primary market risk exposures arise from commodity-price changes for natural gas, oil and NGL, estimation of gas and oil reserves and volatility in interest rates. Energy Trading has long-term contracts for pipeline capacity and is obligated for transportation services with no guarantee that it will be able to recover the full cost of these transportation commitments.

Commodity-Price Risk Management

Market Resources bears the risk associated with commodity-price changes and uses gas- and oil-price-hedging arrangements in the normal course of business to limit the risk of adverse price movements. However these same arrangements typically limit future gains from favorable price movements. Hedging contracts are used for a significant share of Questar E&P-owned gas and oil production, a portion of Energy Trading gas- and oil-marketing transactions and some of Gas Management's NGL.

Market Resources has established policies and procedures for managing commodity-price risks through the use of derivatives. Natural gas- and oil-price hedging supports Market Resources rate of return and cash flow targets and protects earnings from downward movements in commodity prices. The volume of hedged production and the mix of derivative instruments are regularly evaluated and adjusted by management in response to changing market conditions and reviewed periodically by the Finance and Audit Committee of the Company's Board of Directors. Market Resources may hedge up to 100% of forecast production from proved reserves when prices meet earnings and cash flow objectives. Market Resources does not enter into derivative arrangements for speculative purposes and does not hedge undeveloped reserves or equity NGL.

Hedges are matched to equity gas and oil production, thus qualifying as cash flow hedges under the accounting provisions of SFAS 133 as amended and interpreted. Gas hedges are typically structured as fixed-price swaps into

regional pipelines, locking in basis and hedge effectiveness. Any ineffective portion of hedges is immediately recognized in income. The ineffective portion of hedges was not significant in the first quarters of 2006 or 2005.

As of March 31, 2006, approximately 57.2 bcf of forecast gas production for the remainder of 2006 was hedged at an estimated average price of \$6.21 per Mcf, net to the well (which reflects assumed adjustments for regional basis, gathering and processing costs and gas quality).

Market Resources enters into commodity price hedging arrangements with several banks and energy-trading firms with a variety of credit requirements. Some contracts do not require collateral deposits, while others allow some amount of credit before Market Resources is required to deposit collateral for out-of-the-money hedges. The amount of credit available may vary depending on the credit rating assigned to Market Resources debt. In addition to the counterparty arrangements, Market Resources has a \$200 million long-term revolving-credit facility with banks with no borrowings outstanding at March 31, 2006.

A summary of Market Resources hedging positions for equity production as of March 31, 2006, is shown below. Prices are net to the well. Currently all hedges are fixed-price swaps with creditworthy counterparties, allowing Market Resources to realize a known price for a specific volume of production delivered into a regional sales point. The swap price is then reduced by gathering costs and adjusted for product quality to determine the net-to-the-well price.

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Time Periods	Rocky Mountains			Total	Rocky Mountains		
	Midcontinent				Midcontinent		
	Gas (in Bcf)				Estimated		
					Average price per Mcf, net to the well		
<u>2006</u>							
Second quarter	12.9	6.0	18.9	\$5.93	\$6.81	\$6.21	
Second half	26.1	12.2	38.3	5.93	6.81	6.21	
9 months	39.0	18.2	57.2	5.93	6.81	6.21	
<u>2007</u>							
First half	18.1	10.1	28.2	\$6.92	\$7.82	\$7.24	
Second half	18.4	10.3	28.7	6.92	7.82	7.24	
12 months	36.5	20.4	56.9	6.92	7.82	7.24	
<u>2008</u>							
First half	6.8	3.3	10.1	\$6.55	\$7.23	\$6.78	
Second half	6.9	3.4	10.3	6.55	7.23	6.78	
12 months	13.7	6.7	20.4	6.55	7.23	6.78	
	Oil (in Mbbl)				Estimated		
					Average price per bbl, net to the well		
<u>2006</u>							
Second quarter	310	100	410	\$47.77	\$59.89	\$50.73	
Second half	626	202	828	47.77	59.89	50.73	
9 months	936	302	1,238	47.77	59.89	50.73	
<u>2007</u>							
First half	525	199	724	\$56.85	\$57.83	\$57.12	
Second half	534	202	736	56.85	57.83	57.12	
12 months	1,059	401	1,460	56.85	57.83	57.12	
<u>2008</u>							
First half	109	73	182	\$64.23	\$65.30	\$64.66	
Second half	111	73	184	64.23	65.30	64.66	
12 months	220	146	366	64.23	65.30	64.66	

Market Resources held gas-price hedging contracts covering the price exposure for about 174.6 million MMBtu of gas, 3.1 MMbbl of oil and 30.9 million gallons of NGL as of March 31, 2006. A year earlier Market Resources

hedging contracts covered 174.9 million MMBtu of natural gas, 2.6 MMbbl of oil and 10.1 million gallons of NGL.

The following table summarizes changes in the fair value of hedging contracts from December 31, 2005 to March 31, 2006:

#

(in thousands)

Net fair value of gas- and oil-hedging contracts outstanding at December 31, 2005	(\$319,121)
Contracts realized or otherwise settled	52,905
Increase in gas and oil prices on futures markets	184,310
Contracts added since December 31, 2005	1,639
Net fair value of gas- and oil-hedging contracts outstanding at March 31, 2006	(\$80,267)

A table of the net fair value of gas-hedging contracts as of March 31, 2006, is shown below. About 59% of the fair value of all contracts will settle and be reclassified from other comprehensive income in the next 12 months:

#

(in thousands)

Contracts maturing by March 31, 2007	(\$47,692)
Contracts maturing between April 1, 2007 and March 31, 2008	(30,352)
Contracts maturing between April 1, 2008 and March 31, 2009	(2,223)
Net fair value of gas- and oil-hedging contracts at March 31, 2006	(\$80,267)

The following table shows sensitivity of the mark-to-market valuation of gas and oil price-hedging contracts to changes in the market price of gas and oil:

	At March 31,	
	2006	2005
	(in millions)	
Mark-to-market valuation liability	(\$80.3)	(\$253.8)
Value if market prices of gas and oil decline by 10%	45.0	(145.5)
Value if market prices of gas and oil increase by 10%	(\$205.6)	(338.1)

Interest-Rate Risk Management

As of March 31, 2006, Questar had \$983.2 million of fixed-rate long-term debt including \$200 million classified in current liabilities and no variable rate debt.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by the report (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company, including its consolidated subsidiaries, required to be included in the Company's reports filed or submitted under the Exchange Act. The Company's Chief Executive Officer and Chief Financial Officer also concluded that the controls and procedures were effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management including its principal executive and financial officers or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls.

Since the Evaluation Date, there have not been any changes in the Company's internal controls or other factors during the most recent fiscal quarter that could materially affect such controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Beaver Gas Pipeline System. On April 23, 2006, the Oklahoma Court of Civil Appeals affirmed the dismissal of a lawsuit filed by Kaiser-Francis Oil Company against Questar E&P in *Kaiser-Francis Oil v. Anadarko Petroleum Corp., et al.*, Case No. CJ-2003-66518 (Dist. Ct. Okla.) seeking indemnification for a settlement paid by Kaiser-Francis in a related case. Kaiser-Francis was a co-defendant of Questar E&P in a prior Oklahoma case, *Bridenstine v. Kaiser-Francis Oil Co.* The original lawsuit was a class action alleging improper royalty payments for wells connected to the Beaver Gas Pipeline System in western Oklahoma. Questar E&P and Anadarko settled out of the class action lawsuit in December 2000. Kaiser-Francis chose not to settle and was assessed damages, including punitive damages, by a jury. Kaiser-Francis ultimately settled for \$82.5 million, plus interest. Kaiser-Francis' current lawsuit alleges that Questar E&P and Anadarko were obligated by express and implied indemnities to pay for a portion of the damages assessed in the jury trial and for its legal-defense costs. In dismissing the lawsuit for failure to state a claim, the district judge noted that the jury determined that Kaiser-Francis was involved in a conspiracy to commit fraud and was therefore barred by a doctrine similar to "unclean hands" from seeking indemnity for the judgment.

Pinedale Unit Net Profits Interest. On March 23, 2006, Questar E&P and Wexpro filed a declaratory judgment action *Questar Exploration & Production Company and Wexpro Company v. Doyle Hartman, et al.*, (Case No. 2006-6839) in the District Court of Sublette County, Wyoming to determine the interest of Doyle Hartman and other alleged stakeholders (collectively the Hartman parties) who claim a 5% net profits interest (NPI) in Pinedale leasehold interests of Questar E&P, Wexpro and others. The dispute relates to the scope of the NPI, created by a 1954 contract, to which the defendants purport to be successors. By its terms the NPI relates to the former Pinedale Unit, a federal exploratory unit, and is computed based on revenues and expenses from unit operations. The complaint alleges that the Pinedale Unit contracted significantly after the 1954 NPI contract was executed and therefore the NPI, so far as Questar E&P and Wexpro are concerned, is limited to a 1,000 acre remnant of the contracted Pinedale Unit.

On March 31, 2006, Questar E&P and Wexpro were served with a complaint in litigation filed by the Hartman parties. The action, styled *Doyle Hartman, et al v. Questar Exploration and Production Company, Wexpro Company, Ultra Resources, Inc., Shell Rocky Mountain Production LLC, Encana Oil and Gas (USA) Inc., Lance Oil and Gas Company, SWEPI LP, Williams Production Rocky Mountain Co., Gemini Resources, Inc., and Arrowhead Resources (U.S. A.) Ltd.* (Case No. 2006-6843), was filed in the District Court of Sublette County, Wyoming. The complaint seeks declaratory judgment that the NPI affects leases committed to the original Pinedale Unit regardless of whether the leases and lands have been eliminated from the Pinedale Unit by contraction of that unit. The complaint also seeks an accounting, damages for breach of contract, breach of royalty payment obligations, slander of title, breach of the duty of good faith and fair dealing and conversion.

Environmental Matters. In 2004, the Environmental Protection Agency (EPA) issued two separate compliance orders alleging that Gas Management did not comply with regulatory requirements adopted to enforce the federal Clean Air Act. Both orders involved facilities in the Uinta Basin of eastern Utah that were purchased by Questar E&P in mid-2001. Gas Management is currently operating the facilities and filing necessary reports in compliance with regulatory requirements. In settlement discussions with EPA during April 2006, EPA broadened its allegations to include additional potential violations of the Clean Air Act for the referenced facilities. Other Gas Management facilities in the Uinta Basin have been added to the civil penalty discussions with the EPA, with similar allegations of Clean Air Act violations. EPA is also making allegations that Questar and its affiliates failed to provide EPA with complete and accurate information regarding its emission sources within Indian country of the Uinta Basin. These potential violations may result in civil penalties of an unknown and undetermined amount but in excess of \$100,000.

Questar Pipeline received a Notice of Violation from the Colorado Department of Public Health and Environment, Air Pollution Control Division (APCD) dated February 3, 2005, concerning its operation of a tank battery in Rio Blanco County, Colorado. Specifically, the Colorado agency alleged that Questar Pipeline violated applicable environmental regulations by failing to obtain the necessary permits and complying with the best available control technology. Questar Pipeline has reached a settlement with APCD to resolve the Notice of Violation by entering into a Consent Order dated effective April 17, 2006, requiring the payment of \$319,000 and undertaking a supplemental environmental project with an economic value of \$340,000.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth the Company's purchases of common stock registered under Section 12 of the Exchange Act that occurred during the quarter ended March 31, 2006:

	Number of Shares Purchased*	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1, 2006				
January 31, 2006	909	\$82.76	-	-
February 1, 2006				
February 28, 2006	27,332	74.52	-	-
March 1, 2006				
March 31, 2006	5,996	71.12	-	-
Total	34,237	\$74.15	-	-

*The numbers include any shares purchased in conjunction with tax payment elections under the Company's Long-term Stock Incentive Plan and rollover shares used in exercising stock options. They exclude any fractional shares purchased from terminating participants in Questar's Dividend Reinvestment and Stock Purchase Plan and any shares of restricted stock forfeited when failing to satisfy vesting conditions.

Item 6. Exhibits

The following exhibits are being filed as part of this report:

Exhibit No.

Exhibit

31.1.

Certification signed by Keith O. Rattie, Questar's Chairman, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2.

Certification signed by S. E. Parks, Questar's Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.

Certification signed by Keith O. Rattie and S. E. Parks, Questar's Chairman, President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, respectively, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

QUESTAR CORPORATION

(Registrant)

May 5, 2006

/s/Keith O. Rattie

Date

Keith O. Rattie, Chairman of the Board,
President and Chief Executive Officer

May 5, 2006

/s/S. E. Parks

Date

S. E. Parks, Senior Vice President and
Chief Financial Officer

Exhibits List

Exhibits

31.1.

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#

Exhibit 31.1.

CERTIFICATION

I, Keith O. Rattie, certify that:

1.

I have reviewed this quarterly report of Questar Corporation on Form 10-Q for the period ending March 31, 2006;

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 quarterly 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 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 we 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.

5.

The registrant's other certifying officer 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 registrant's board of directors (or persons performing the equivalent function):

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.

May 5, 2006

/s/Keith O. Rattie

Date

Keith O. Rattie,

Chairman, President and Chief

Executive Officer

#

Exhibit 31.2.

CERTIFICATION

I, S. E. Parks, certify that:

1.

I have reviewed this quarterly report of Questar Corporation on Form 10-Q for the period ending March 31, 2006;

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 quarterly 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 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 we 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.

5.

The registrant's other certifying officer 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 registrant's board of directors (or persons performing the equivalent function):

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.

May 5, 2006

/s/S. E. Parks

Date

S. E. Parks

Senior Vice President

and Chief Financial Officer

#

Exhibit No. 32.

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 Questar Corporation (the Company) on Form 10-Q for the period ending March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report), Keith O. Rattie, Chairman, President and Chief Executive Officer of the Company, and S. E. Parks, Senior Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1)

The Report fully complies with the requirements of Section 13(a) or Section 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.

QUESTAR CORPORATION

May 5, 2006

/s/Keith O. Rattie

Date

Keith O. Rattie

Chairman, President and Chief Executive Officer

May 5, 2006

/s/ S. E. Parks

Date

S. E. Parks

Senior Vice President and Chief Financial Officer

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