

Compass Diversified Holdings  
Form S-3/A  
May 26, 2009

As filed with the Securities and Exchange Commission on May 26, 2009

Registration No. 333-159339

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Amendment No. 1**  
**to**  
**FORM S-3**  
**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**  
**COMPASS DIVERSIFIED HOLDINGS**  
*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware** **57-6218917**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
**COMPASS GROUP DIVERSIFIED HOLDINGS LLC**  
*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware** **20-3812051**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

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

**I. Joseph Massoud**  
**Chief Executive Officer**  
**Compass Group Diversified Holdings LLC**  
**Sixty One Wilton Road**  
**Westport, CT 06880**  
**(203) 221-1703**  
*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

*Copies to:*  
**Stephen C. Mahon**  
**Fred A. Summer**  
**Squire, Sanders & Dempsey L.L.P.**  
**221 E. Fourth Street**  
**Cincinnati, Ohio 45202**  
**(513) 361-1200**  
**(513) 361-1201 Facsimile**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

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

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

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer     
  Accelerated filer     
  Non-accelerated filer     
  Smaller reporting company

(Do not check if a smaller reporting company)

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Security Being Registered                         | Amount Being Registered | Maximum Offering Price Per Security (1) | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee(1) |
|--|-------------------------|---|--|-------------------------------|
| Shares representing beneficial interests in Compass Diversified Holdings |                         |   | \$200,000,000                                | \$11,160                      |
| Non-management interests of Compass Group Diversified Holdings LLC       |                         |   | (2)  | (3)                           |
| <b>Total</b>   |                         |   | <b>\$200,000,000</b>                         | <b>\$11,160</b>               |

- (1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended.
- (2) Each share representing one beneficial interest in Compass Diversified Holdings corresponds to one underlying non-management interest of Compass Group Diversified Holdings LLC. If the trust is dissolved, each share representing a beneficial interest in Compass Diversified Holdings will be exchanged for a non-management interest of Compass Group Diversified Holdings LLC.
- (3) Pursuant to Rule 457(i) under the Securities Act, no registration fee is payable with respect to the non-management interests of Compass Group Diversified Holdings LLC because no additional consideration will be received by Compass Diversified Holdings upon exchange of the shares representing beneficial interests in Compass Diversified Holdings.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of**

**1933 or until this registration statement shall become effective on such date as the commission, acting pursuant to said Section 8(a), may determine.**

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## Shares

### **Each Share Represents One Beneficial Interest in Compass Diversified Holdings**

Compass Diversified Holdings may sell, from time to time, shares of the trust, each representing one undivided beneficial interest in the trust property. The purpose of the trust is to hold 100% of the trust interests of Compass Group Diversified Holdings LLC, which we refer to as the company. Each beneficial interest in the trust corresponds to one trust interest of the company. We may offer for sale the shares covered by this prospectus directly to purchasers or through underwriters, broker-dealers or agents, in public or private transactions, at prevailing market prices or at privately negotiated prices. For additional information on the methods of sale, you should refer to the section of this prospectus entitled Plan of Distribution.

The shares trade on the Nasdaq Global Select Market under the symbol CODI. On May 22, 2009, the closing price of the shares on the Nasdaq Global Select Market was \$8.90 per share.

We will provide more specific information about the terms of an offering of these shares in supplements or term sheets to this prospectus. This prospectus may not be used to offer or sell shares unless accompanied by a prospectus supplement or term sheet. You should read this prospectus, the prospectus supplements and term sheets carefully before you invest. If any underwriters, broker-dealers or agents are involved in any offering, the names of such underwriters, broker-dealers or agents and any applicable commissions or discounts will be described in the applicable prospectus supplement or term sheet relating to the offering.

**Investing in our shares involves risks. See the description of Risk Factors which begins on page 2.**

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

The date of this prospectus is           , 2009

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**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus may be used only for the purpose for which it has been published, and no person has been authorized to give any information not contained in this prospectus. If you receive any other information, you should not rely on it. We are not making an offer of these securities in any jurisdiction where the offer is not permitted.**

**NOTE TO READER**

In reading this registration statement, references to:

the trust refer to Compass Diversified Holdings;

the company refer to Compass Group Diversified Holdings LLC;

manager or CGM refer to Compass Group Management LLC;

businesses refer to, collectively, the businesses controlled by the company;

initial businesses refer to, collectively, CBS Personnel Holdings, Inc., Crosman Acquisition Corporation, Compass AC Holdings, Inc. and Silvue Technologies Group, Inc.

the trust agreement refer to the Amended and Restated Agreement of the Trust dated as of April 25, 2006, as amended by the third amendment dated as of December 21, 2007;

the LLC agreement refer to the Second Amended and Restated Operating Agreement of the company dated as of January 9, 2007; and

we, us and our refer to the trust, the company and our businesses together.

### **ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, which we refer to as the SEC, using a shelf registration process. Under this shelf process, we may sell the shares covered by this prospectus in one or more offerings as described under Plan of Distribution in this prospectus.

### **PROSPECTUS SUPPLEMENT OR TERM SHEET**

This prospectus provides you with a general description of the shares that we may offer. Each time that we offer shares, we will provide a prospectus supplement or term sheet that will contain specific information about the terms of that offering. The prospectus supplement or term sheet may also add to, update or change information contained in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in a prospectus supplement or term sheet. You should read both this prospectus and any accompanying prospectus supplement or term sheet together with the additional information described under the heading Incorporation of Certain Documents by Reference.

The prospectus supplement or term sheet to be attached to the front of this prospectus will describe: the applicable public offering price, the price paid for the shares, the net proceeds, the manner of distribution and any underwriting compensation and the other specific material terms related to the offering of shares covered by this prospectus.

For more detail on the terms of the shares offered, see Description of Shares.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus, including the sections entitled Summary and Risk Factors, contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the

Securities Act ) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ) that are based on our current expectations, estimates and projections. Pursuant to those sections, we may obtain a safe harbor for forward-looking statements by identifying those statements and by accompanying those statements with cautionary statements, which identify factors that could cause actual results to differ from those expressed in the forward-looking statements. We may, in some cases, use words such as project, predict, believe, anticipate, plan, expect, estimate, intend, should, would, could, potentially, or may or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this prospectus are subject to a number of risks and uncertainties, some of which are beyond our control, including among other things:

our ability to successfully operate our businesses on a combined basis, and to effectively integrate and improve any future acquisitions;

our ability to remove our manager and our manager's right to resign;

our trust and organizational structure, which may limit our ability to meet our dividend and distribution policy;

our ability to service and comply with the terms of our indebtedness;

our cash flow available for distribution and our ability to make distributions in the future to our shareholders;

our ability to pay the management fee, profit allocation and put price when due;

our ability to make and finance future acquisitions;

our ability to implement our acquisition and management strategies;

the regulatory environment in which our businesses operate;

trends in the industries in which our businesses operate;

changes in general economic or business conditions or economic or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;

environmental risks affecting the business or operations of our businesses;

our and our manager's ability to retain or replace qualified employees of our businesses and our manager;

costs and effects of legal and administrative proceedings, settlements, investigations and claims; and

extraordinary or force majeure events affecting the business or operations of our businesses.

Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. A description of some of the risks that could cause our actual results to differ appears under the section "Risk Factors" and elsewhere in this prospectus or incorporated herein by reference. Additional risks of which we are not currently aware or which we currently deem immaterial could also cause our actual results to differ.

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

## SUMMARY

This prospectus summary highlights information contained elsewhere in this prospectus and in the documents we file with the Securities and Exchange Commission that are incorporated by reference in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in our shares. You should read the entire prospectus and the information incorporated by reference in this prospectus carefully, including Risk Factors included below and our consolidated financial statements and related notes included in our most recently filed Annual Report on Form 10-K in each case as updated or supplemented by subsequent periodic reports that we file with the Securities and Exchange Commission, before making an investment decision. Further, unless the context otherwise indicates, numbers in this prospectus have been rounded and are, therefore, approximate.

### Overview

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

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

We acquire and manage middle market businesses based in North America that generate annual cash flows of up to \$60 million. We seek to acquire controlling ownership interests in such businesses in order to maximize our ability to work actively with the management teams of those businesses. Our model for creating shareholder value is to be disciplined in identifying and valuing businesses, to work closely with management of the businesses we acquire to grow the cash flows of those businesses, and to exit opportunistically businesses when we believe that doing so will maximize returns. We currently own six businesses in six distinct industries and we believe that these businesses will continue to produce stable and growing cash flows over the long term, enabling us to meet our objectives of growing distributions to our shareholders, independent of any incremental acquisitions we may make, and investing in the long-term growth of the company.

### Our Manager

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

### Corporate Structure

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

Each share of the trust represents one undivided beneficial interest in the trust property. The purpose of the trust is to hold the trust interests of the company, which is one of two classes of equity interests in the company the trust interests, of which 100% are held by the trust, and allocation interests, of which 100% are held by our manager. The trust has the authority to issue shares in one or more series. See the section entitled Description of Shares for more information about the shares, trust interests and allocation interests.



### **RISK FACTORS**

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

See Item IA Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, as amended, which is incorporated by reference into this prospectus. For information on incorporating our filings into this prospectus, see Incorporation Of Certain Documents By Reference below.

### **USE OF PROCEEDS**

Unless indicated otherwise in the applicable prospectus supplement or term sheet, we expect to use the net proceeds from our sale of shares under this prospectus for general corporate purposes, including to fund new acquisitions, when and if identified. Additional information on the use of net proceeds from the sale of securities offered by this prospectus may be set forth in the prospectus supplement or term sheet relating to such offering.

### **PLAN OF DISTRIBUTION**

We may sell shares in any one or more of the following ways from time to time: (i) through agents; (ii) to or through underwriters; (iii) through brokers or dealers; (iv) directly by us to purchasers, including through a specific bidding, auction or other process; or (v) through a combination of any of these methods of sale. The applicable prospectus supplement or term sheet will contain the terms of the transaction, name or names of any underwriters, dealers, agents and the respective amounts of shares underwritten or purchased by them, the public offering price of the shares, and the applicable agent's commission, dealer's purchase price or underwriter's discount. Any dealers or agents participating in the distribution of the shares may be deemed to be underwriters, and compensation received by them on resale of the shares may be deemed to be underwriting discounts.

Any initial offering price, dealer purchase price, discount or commission may be changed from time to time.

The shares may be distributed from time to time in one or more transactions, at negotiated prices, at a fixed price or fixed prices (that may be subject to change), at market prices prevailing at the time of sale, at various prices determined at the time of sale or at prices related to prevailing market prices.

Offers to purchase shares may be solicited directly by us or by agents designated by us from time to time. Any such agent may be deemed to be an underwriter, as that term is defined in the Securities Act of 1933, as amended, which we refer to as the Securities Act, of the shares so offered and sold.

If underwriters are utilized in the sale of any shares in respect of which this prospectus is being delivered, such shares will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at fixed public offering prices or at varying prices determined by the underwriters at the time of sale. Shares may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by one or more underwriters. If any underwriter or underwriters are utilized in the sale of shares, unless otherwise indicated in the applicable prospectus supplement, the obligations of the underwriters are subject to certain conditions precedent and the underwriters will be obligated to purchase all such shares if any are purchased.

If a dealer is utilized in the sale of shares in respect of which this prospectus is delivered, we will sell shares to the dealer as principal. The dealer may then resell such shares to the public at varying prices to be determined by such dealer at the time of resale. Transactions through brokers or dealers may include block trades in which brokers or dealers will attempt to sell shares as agent but may position and resell as principal to facilitate the transaction, or in crosses in which the same broker or dealer acts as agent on both sides of the trade. Any such dealer may be deemed to be an underwriter, as such term is defined in the Securities Act, of the shares so offered and sold.

Offers to purchase shares may be solicited directly by us and the sale thereof may be made by us directly to institutional investors or others, who may be deemed to be underwriters within the meaning of the Securities Act with respect to any resale thereof.

If so indicated in the applicable prospectus supplement or term sheet, we may authorize agents and underwriters to solicit offers by certain institutions to purchase shares from us at the public offering price set forth in the applicable prospectus supplement or term sheet pursuant to delayed delivery contracts providing for payment and delivery on the date or dates stated in the applicable prospectus supplement. Such delayed delivery contracts will be subject only to those conditions set forth in the applicable prospectus supplement.

Agents, underwriters and dealers may be entitled under relevant agreements with us to indemnification by us against certain liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which such agents underwriters and dealers may be required to make in respect thereof. The terms and conditions of any indemnification or contribution will be described in the applicable prospectus supplement or term sheet.

We may also sell shares through various arrangements involving mandatorily or optionally exchangeable securities, and this prospectus may be delivered in connection with those sales.

We may enter into derivative, sale or forward sale transactions with third parties, or sell shares not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement or term sheet indicates, in connection with those transactions, the third parties may sell shares covered by this prospectus and the applicable prospectus supplement or term sheet, including in short sale transactions and by issuing shares not covered by this prospectus but convertible into or exchangeable for or representing beneficial interests in such shares, or the return of which is derived in whole or in part from the value of such shares. If so, the third party may use shares received under those sales, forward sale or derivative arrangements or shares pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of shares, and may use shares received from us in settlement of those transactions to close out any related open borrowings of shares. The third party in such sale transactions will be an underwriter and will be identified in the applicable prospectus supplement (or a post-effective amendment).

Underwriters, broker-dealers or agents may receive compensation in the form of commissions, discounts or concessions from us. Underwriters, broker-dealers or agents may also receive compensation from the purchasers of shares for whom they act as agents or to whom they sell as principals, or both. Compensation as to a particular underwriter, broker-dealer or agent might be in excess of customary commissions and will be in amounts to be negotiated in connection with transactions involving shares. In effecting sales, broker-dealers engaged by us may arrange for other broker-dealers to participate in the resales.

Agents, underwriters and dealers may engage in transactions with, or perform services for, us or our manager and our respective subsidiaries in the ordinary course of business.

Any underwriter may engage in overallotment, stabilizing transactions, short covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Overallotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying shares as long as the stabilizing bids do not exceed a specified maximum. Short covering transactions involve purchases of the shares in the open market after the distribution is completed to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the shares originally sold by the dealer are purchased in a covering transaction to cover short positions. Those activities may cause the price of the shares to be higher than it would be otherwise. If commenced, the underwriters may discontinue any of the activities at any time. An underwriter may carry out these transactions on the Nasdaq Global Select Market, in the over-the-counter market or otherwise.

The place and time of delivery for the shares will be set forth in the accompanying prospectus supplement or term sheet for such shares.

## DESCRIPTION OF SHARES

### **General**

The following descriptions of the trust agreement and the LLC agreement are subject to the provisions of the Delaware Statutory Trust Act and the Delaware Limited Liability Company Act. Certain provisions of the trust agreement and the LLC agreement are intended to be consistent with the Delaware General Corporation Law, which we refer to as the DGCL, and the powers of the company, the governance processes and the rights of the trust as the holder of the trust interests and the shareholders of the trust are generally intended to be similar in many respects to those of a typical Delaware corporation under the DGCL, with certain exceptions.

The statements that follow are subject to and are qualified in their entirety by reference to all of the provisions of each of the trust agreement and the LLC agreement, which will govern your rights as a holder of the shares and the trust's rights as a holder of trust interests. Forms of the trust agreement and the LLC agreement have been filed with the SEC as exhibits to our Forms 8-K filed on December 21, 2007 and January 10, 2007, respectively.

### **Shares in the Trust**

Each share of the trust represents one undivided beneficial interest in the trust property and each share of the trust corresponds to one underlying trust interest held by the trust. Unless the trust is dissolved, it must remain the holder of 100% of the trust interests and at all times the company will have outstanding the identical number of trust interests as the number of outstanding shares of the trust. Pursuant to the trust agreement, the trust is authorized to issue up to 500,000,000 shares and the company is authorized to issue a corresponding number of trust interests. As of May 1, 2009, the trust had 31,525,000 shares outstanding and the company had an equal number of corresponding trust interests outstanding. All shares and trust interests will be fully paid and nonassessable upon payment thereof.

### **Equity Interests in the Company**

The company is authorized, pursuant to action by the company's board of directors, to issue up to 500,000,000 trust interests in one or more series. In addition to the trust interests, the company is authorized, pursuant to action by the company's board of directors, to issue up to 1,000 allocation interests. In connection with the formation of the company, our manager acquired 100% of the allocation interests so authorized and issued. All allocation interests are fully paid and nonassessable. Other than the allocation interests held by our manager, the company is not authorized to issue any other allocation interests.

### **Distributions**

#### *General*

The company, acting through its board of directors, may declare and pay quarterly distributions on the interests of the company. Any distributions so declared will be paid on such interests in proportion to the number of such interests held by the holders thereof. The members of our manager currently have a nominal indirect equity interest in the company, which is subject to dilution if additional shares, including the shares offered hereby, are offered in the future. The company's board of directors may, in its sole discretion and at any time, declare and pay distributions from the cash flow available for distributions to the holders of its interests.

Upon receipt of any distributions declared and paid by the company, the trust will, pursuant to the terms of the trust agreement, distribute within five business days the whole amount of such distributions in cash to its shareholders, in proportion to their percentage ownership of the trust on the related record date. The record date for distributions by the company will be the same as the record date for corresponding distributions by the trust.

In addition, under the terms of the LLC agreement, the company will pay a profit allocation to our manager, as holder of the allocation interests. See "Certain Relationships and Related Party Transactions" in our definitive Proxy Statement on Schedule 14A filed with the SEC on April 13, 2009, which is incorporated by reference into this prospectus, for more information about the profit allocation to our manager.

## **Voting and Consent Rights**

### ***General***

Each outstanding share is entitled to one vote on any company matter with respect to which the trust is entitled to vote, as provided in the LLC agreement and as detailed below. Pursuant to the terms of the LLC agreement and the trust agreement, the company will act at the direction of the trust only with respect to those matters subject to vote by the holders of trust interests of the company. The company, as sponsor of the trust, will provide to the trust, for transmittal to shareholders of the trust, the appropriate form of proxy to enable shareholders of the trust to direct, in proportion to their percentage ownership of the shares, the trust's vote with respect to the trust interests. The trust will vote its trust interests in the same proportion as the vote of holders of the shares. For purposes of this summary, the voting rights of holders of the trust interests of the company that effectively will be exercised by the shareholders of the trust by proxy will be referred to as the voting rights of the holders of the shares.

The LLC agreement provides that the holders of trust interests are entitled, at the annual meeting of members of the company, to vote for the election of all of the directors other than any director appointed by our manager. Because neither the trust agreement nor the LLC agreement provides for cumulative voting rights, the holders of a plurality of the voting power of the then outstanding shares represented at a shareholders meeting will effectively be able to elect all the directors of the company standing for election.

The LLC agreement further provides that holders of allocation interests will not be entitled to any voting rights, except that holders of allocation interests will have, in accordance with the terms of the LLC agreement:

voting or consent rights in connection with certain anti-takeover provisions, as discussed below;

a consent right with respect to the amendment or modification of the provisions providing for distributions to the holders of allocation interests;

a consent right to any amendment to the provision entitling the holders of allocation interests to appoint directors who will serve on the board of directors of the company;

a consent right with respect to any amendment of the provision of the LLC agreement governing amendments thereof; and

a consent right with respect to any amendment that would adversely affect the holders of allocation interests.

### ***Board of Directors Appointee***

As holder of the allocation interests, our manager has the right to appoint one director (or two directors if the board size is increased to nine or more directors) to the company's board of directors. No such appointed director on the company's board of directors will be required to stand for election by the shareholders. No such appointed director who is also a member of the company's management will receive any compensation (other than reimbursements that are permitted for directors) or will have any special voting rights.

### **Right to Bring a Derivative Action and Enforcement of the Provisions of the LLC Agreement by Holders of the Shares and Our Manager**

The trust agreement and the LLC agreement both provide that holders of shares representing at least ten percent of the outstanding shares shall have the right to directly institute a legal proceeding against the company to enforce the provisions of the LLC agreement. In addition, the trust agreement and the LLC agreement provide that holders of shares representing at least ten percent of the outstanding shares have the right to cause the trust to institute any legal proceeding for any remedy available to the trust, including the bringing of a derivative action in the place of the company under Section 18-1001 of the Delaware Limited Liability Company Act relating to the right to bring derivative actions. Holders of shares will have the right to direct the time, method and place of conducting such legal proceedings brought by the trust. Our manager, as holder of the allocation interests, has the right to directly institute proceedings against the company to enforce the provisions of the LLC agreement.

### **Acquisition Exchange and Optional Purchase**

The trust agreement and the LLC agreement provide that, if at any time more than 90% of the then outstanding shares are beneficially owned by one person, who we refer to as the acquirer and which time we refer to as the control date, such acquirer has the right to cause the trust, acting at the direction of the company's board of directors, to mandatorily exchange all shares then outstanding for an equal number of trust interests, which we refer to as an acquisition exchange, and dissolve the trust. The company, as sponsor of the trust, will cause the transfer agent of the shares to mail a copy of notice of such acquisition exchange to the shareholders of the trust at least 30 days prior to the exchange of shares for trust interests. Upon the completion of such acquisition exchange, each holder of shares immediately prior to the completion of the acquisition exchange will be admitted to the company as a member in respect of an equal number of trust interests and the trust will cease to be a member of the company.

The LLC agreement provides that, following such exchange, the acquirer shall have the right to purchase at the offer price, as defined in the LLC agreement, from the other holders of trust interests for cash all, but not less than all, of the outstanding trust interests that the acquirer does not own as of the control date. While this provision of the LLC agreement provides for a fair price requirement, the LLC agreement does not provide members with appraisal rights to which shareholders of a Delaware corporation would be entitled under Section 262 of the DGCL. The acquirer can exercise its right to effect such purchase by delivering notice to the company and the transfer agent of its election to make the purchase not less than 60 days prior to the control. The company will cause the transfer agent to mail the notice of the purchase to the record holders of the trust interests at least 30 days prior to the control date. We refer to the date of purchase as the purchase date.

### **Voluntary Exchange**

The trust agreement and the LLC agreement provide that in the event the company's board of directors determines that:

the trust or the company, or both, is, or is reasonably likely to be, treated as a corporation for United States federal income tax purposes, or

the existence of the trust otherwise results, or is reasonably likely to result, in a material tax detriment to the trust, the holders of shares, the company or any of the members,

the company, as sponsor of the trust, may cause the trust to exchange all shares then outstanding for an equal number of trust interests and dissolve the trust. We refer to such an exchange as a voluntary exchange. The company, as sponsor of the trust, will cause the transfer agent for the shares to mail a copy of notice of such voluntary exchange to the shareholders of the trust at least 30 days prior to the exchange of shares for trust interests. Upon the completion of such voluntary exchange, each holder of shares immediately prior to the completion of the voluntary exchange will be admitted to the company as a member in respect of an equal number of trust interests and the trust will cease to be a member of the company.

### **Election by the Company**

In circumstances where the trust has been dissolved, the LLC agreement provides that the company's board of directors may, without the consent or vote of holders of trust interests, cause the company to elect to be treated as a corporation for United States federal income tax purposes only if the board receives an opinion from a nationally recognized financial adviser to the effect that the market valuation of the company is expected to be significantly lower as a result of the company continuing to be treated as a partnership for United States federal income tax purposes than if the company instead elected to be treated as a corporation for United States federal income tax purposes.

### **Dissolution of the Trust and the Company**

The LLC agreement provides for the dissolution and winding up of the company upon the occurrence of: the adoption of a resolution by a majority vote of the company's board of directors approving the dissolution, winding up and liquidation of the company and the approval of such action by the affirmative vote of a majority of the outstanding trust interests entitled to vote thereon;

the unanimous vote of the outstanding trust interests to dissolve, wind up and liquidate the company;

a judicial determination that an event has occurred that makes it not reasonably practical to carry on the business of the company in conformity with the LLC agreement as determined in accordance with Section 18-802 of the Delaware Limited Liability Company Act; or

the termination of the legal existence of the last remaining member of the Company or the occurrence of any other event that terminates the continued membership of the last remaining member of the Company, unless the company is continued without dissolution in a manner provided under the LLC agreement or the Delaware Limited Liability Company Act.

The trust agreement provides for the dissolution and winding up of the trust upon the occurrence of: an acquisition exchange or a voluntary exchange;

the filing of a certificate of cancellation of the company or its failure to revive its charter within 10 days following revocation of the company's charter;

the entry of a decree of judicial dissolution by a court of competent jurisdiction over the company or the trust; or

the written election of the company.

We refer to these events as dissolution events. Following the occurrence of a dissolution event with respect to the trust, each share will be mandatorily exchanged for a trust interest of the company. Upon dissolution of the company in accordance with the terms of the LLC agreement, the then holders of trust interests will be entitled to share in the assets of the company legally available for distribution following payment to creditors in accordance with the positive balance in such holders' tax-based capital accounts required by the LLC agreement, after giving effect to all contributions, distributions and allocations for all periods.

### **Anti-Takeover Provisions**

Certain provisions of the management services agreement, the trust agreement and the LLC agreement may make it more difficult for third parties to acquire control of the trust and the company by various means. These provisions could deprive the shareholders of the trust of opportunities to realize a premium on the shares owned by them. In addition, these provisions may adversely affect the prevailing market price of the shares. These provisions are intended to:

protect our manager and its economic interests in the company;

protect the position of our manager and its rights to manage the business and affairs of the company under the management services agreement;

enhance the likelihood of continuity and stability in the composition of the company's board of directors and in the policies formulated by the board of directors;

discourage certain types of transactions which may involve an actual or threatened change in control of the trust and the company;

discourage certain tactics that may be used in proxy fights;

encourage persons seeking to acquire control of the trust and the company to consult first with the company's board of directors to negotiate the terms of any proposed business combination or offer; and

reduce the vulnerability of the trust and the company to an unsolicited proposal for a takeover that does not contemplate the acquisition of all of the outstanding shares or that is otherwise unfair to shareholders of the trust.

***Anti-Takeover Effects of the Management Services Agreement***

The limited circumstances in which our manager may be terminated means that it will be very difficult for a potential acquirer of the company to take over the management and operation of our business. Under the terms of the management services agreement, our manager may only be terminated by the company in certain limited circumstances.

Furthermore, our manager has the right to resign and terminate the management services agreement upon 90 days notice. Upon the termination of the management service agreement, seconded officers, employees, representatives and delegates of our manager and its affiliates who are performing the services that are the subject of the management services agreement will resign their respective position with the company and cease to work at the date of our manager's termination or at any other time as determined by our manager. Any appointed director may continue serving on the company's board of directors subject to our manager's continued ownership of the allocation interests.

If we terminate the management services agreement, the company and the trust will agree, and the company will agree to cause its businesses, to cease using the term Compass, including any trademarks based on the name of the company and trust owned by our manager, entirely in their businesses and operations within 180 days of such termination. This agreement would require the trust, the company and its businesses to change their names to remove any reference to the term Compass or any trademarks owned by our manager.

***Anti-Takeover Provisions in the Trust Agreement and the LLC Agreement***

A number of provisions of the trust agreement and the LLC agreement also could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, control of the trust and the company. The trust agreement and the LLC agreement prohibit the merger or consolidation of the trust and the company with or into any limited liability company, corporation, statutory trust, business trust or association, real estate investment trust, common-law trust or any other unincorporated business, including a partnership, or the sale, lease or exchange of all or substantially all of the trust's or the company's property or assets unless, in each case, the company's board of directors adopts a resolution by a majority vote approving such action and unless (i) in the case of the company, such action is approved by the affirmative vote of the holders of a majority of each of the outstanding trust interests and allocation interests entitled to vote thereon or (ii) in the case of the trust, such action is approved by the affirmative vote of the holders of a majority of the outstanding shares entitled to vote thereon.

In addition, the trust agreement and the LLC agreement each contain provisions based on Section 203 of the DGCL which prohibit the company and the trust from engaging in a business combination with an interested shareholder unless (i) in the case of the company, such business combination is approved by the affirmative vote of the holders of 66 2/3% of each of the outstanding trust interests and allocation interests or (ii) in the case of the trust, such business combination is approved by the affirmative vote of the holders of 66 2/3% of the outstanding shares, in each case, excluding shares or interests, as the case may be, held by the interested shareholder or any affiliate or associate of the interested shareholder.

Subject to the right of our manager to appoint directors and any successor in the event of a vacancy, the LLC agreement authorizes the company's board of directors to fill vacancies. This provision could prevent a shareholder of the trust from effectively obtaining an indirect majority representation on the company's board of directors by permitting the existing board of directors to increase the number of directors and to fill the vacancies with its own nominees. The LLC agreement also provides that directors may be removed, with or without cause, only by the affirmative vote of holders of 85% of the outstanding trust interests that so elected or appointed such director. An appointed director may only be removed by our manager, as holder of the allocation interests.

The trust agreement and the LLC agreement do not permit holders of the shares to act by written consent. Instead, shareholders may only take action via proxy, which, when the action relates to the trust's exercise of its rights as a member of the company, may be presented at a duly called annual or special meeting of members of the company and will constitute the vote of the trust. For so long as the trust remains a member of the company, the trust will act by written consent, including to vote its trust interests in a manner that reflects the vote by proxy of the holders of the shares. Furthermore, the trust agreement and the LLC agreement provide that special meetings may only be called by the chairman of the company's board of directors or by resolution adopted by the company's board of directors.





The trust agreement and the LLC agreement also provide that members, or holders of shares, seeking to bring business before an annual meeting of members or to nominate candidates for election as directors at an annual meeting of members of the company, must provide notice thereof in writing to the company not less than 120 days and not more than 150 days prior to the anniversary date of the preceding year's annual meeting of members or as otherwise required by requirements of the Exchange Act. In addition, the member or holder of shares furnishing such notice must be a member or shareholder, as the case may be, of record on both (i) the date of delivering such notice and (ii) the record date for the determination of members or shareholders, as the case may be, entitled to vote at such meeting. The trust agreement and the LLC agreement specify certain requirements as to the form and content of a member's or shareholder's notice, as the case may be. These provisions may preclude members or holders of shares from bringing matters before holders of shares at an annual meeting or from making nominations for directors at an annual or special meeting.

The company's board of directors is divided into three classes serving staggered three-year terms, which effectively requires at least two election cycles for a majority of the company's board of directors to be replaced. See our definitive Proxy Statement on Schedule 14A filed on April 13, 2009, which is incorporated by reference into this prospectus, for more information about the company's board. In addition, our manager will have certain rights with respect to appointing one or more directors, as discussed above.

Authorized but unissued shares are available for future issuance, without approval of the shareholders of the trust. These additional shares may be utilized for a variety of purposes, including future public offerings to raise additional capital or to fund acquisitions, as well as option plans for employees of the company or its businesses. The existence of authorized but unissued shares could render more difficult or discourage an attempt to obtain control of the trust by means of a proxy contest, tender offer, merger or otherwise.

In addition, the company's board of directors has broad authority to amend the trust agreement and the LLC agreement, as discussed below. The company's board of directors could, in the future, choose to amend the trust agreement or the LLC agreement to include other provisions which have the intention or effect of discouraging takeover attempts.

#### **Amendment of the LLC Agreement**

The LLC agreement (including the distribution provisions thereof) may be amended only by a majority vote of the board of directors of the company, except that amending the following provisions requires an affirmative vote of at least a majority of the outstanding shares:

the purpose or powers of the company;

the authorization of an increase in trust interests;

the distribution rights of the trust interests;

the voting rights of the trust interests;

the provisions regarding the right to acquire trust interests after an acquisition exchange described above;

the right of holders of shares to enforce the LLC agreement or to institute any legal proceeding for any remedy available to the trust;

the hiring of a replacement manager following the termination of the management services agreement;

the merger or consolidation of the company, the sale, lease or exchange of all or substantially all of the company's assets and certain other business combinations or transactions;

the right of holders of trust interests to vote on the dissolution, winding up and liquidation of the company; and

the provision of the LLC agreement governing amendments thereof.

In addition, our manager, as holder of the allocation interests, will have the rights specified above under Voting and Consent Rights.

**Amendment of the Trust Agreement**

The trust agreement may be amended by the company, as sponsor of the trust, and the regular trustees acting at the company's direction. However, the company may not, without the affirmative vote of a majority of the outstanding shares, enter into or consent to any amendment of the trust agreement that would:

cause the trust to fail or cease to qualify for the exemption from the status of an investment company under the Investment Company Act;

cause the trust to issue a class of equity securities other than the shares (as described above under Shares in the Trust ), or issue any debt securities or any derivative securities or amend the provision of the trust agreement prohibiting any such issuances;

affect the exclusive and absolute right of our shareholders to direct the voting of the trust, as a member of the company, with respect to all matters reserved for the vote of members of the company pursuant to the LLC agreement;

effect the merger or consolidation of the trust, effect the sale, lease or exchange of all or substantially all of the trust's property or assets and certain other business combinations or transactions;

amend the distribution rights of the shares;

increase the number of authorized shares; or

amend the provision of the trust agreement governing the amendment thereof.

**Trustees**

Messrs. Alan B. Offenberg and James J. Bottiglieri currently serve as the regular trustees of the trust, and BNY Mellon Trust of Delaware currently serves as the Delaware trustee of the trust.

**Transfer Agent and Registrar**

The transfer agent and registrar for the shares and the trust interests is BNY Mellon Shareowner Services.

**Listing**

Our shares are listed on the Nasdaq Global Select Market under the symbol CODI.

**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

*The following is a summary of material U.S. federal income tax considerations associated with the purchase, ownership and disposition of shares by U.S. holders (as defined below) and non-U.S. holders (as defined below). The following summary is based upon current provisions of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, currently applicable United States Treasury Regulations, which we refer to as Regulations, and judicial and administrative rulings as of the date hereof. This summary is not binding upon the Internal Revenue Service, which we refer to as the IRS, and no rulings have been or will be sought from the IRS regarding any matters discussed in this summary. In that regard, there can be no assurance that positions taken with respect to, for example, the status of the trust as a publicly traded partnership exempt from taxation as a corporation will not be challenged by the IRS. In addition, legislative, judicial or administrative changes may be forthcoming that could alter or modify the tax consequences, possibly on a retroactive basis.*

This summary deals only with shares of the trust that are held as capital assets by holders who acquire the shares upon original issuance and does not address (except to the limited extent described below) special situations, such as those of:

brokers and dealers in securities or currencies;

financial institutions;

regulated investment companies;

real estate investment trusts;

tax-exempt organizations;

insurance companies;

persons holding shares as a part of a hedging, integrated or conversion transaction or a straddle, or as part of any other risk reduction transaction;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; or

persons liable for alternative minimum tax.

A U.S. holder of shares means a beneficial owner of shares that is, for U.S. federal income tax purposes: an individual citizen or resident of the United States;

a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

a partnership (or other entity treated as a partnership for tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia, the interests in which are owned only by U.S. persons;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a federal, state or local court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Regulations to be treated as a U.S. person.

A non-U.S. holder of shares means a beneficial owner of shares that is not a U.S. holder.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds shares of the trust, the tax treatment of any non-U.S. partner in such partnership (or other entity) will generally depend upon the status of the partner and the activities of the partnership. If you are a non-U.S. partner of a partnership (or similarly treated entity) that acquires and holds shares of the trust, we urge you to consult your own tax adviser.

No statutory, administrative or judicial authority directly addresses many of the U.S. federal income tax issues pertaining to the treatment of shares or instruments similar to the shares. As a result, we cannot assure you that the IRS or the courts will agree with the positions described in this summary. A different treatment of the shares, the trust or the company from that described below could adversely affect the amount, timing, character, and manner for reporting of income, gain or loss in respect of an investment in the shares. **If you are considering the purchase of shares, we urge you to consult your own tax adviser concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of shares, as well as any consequences to you arising under the laws of any other taxing jurisdiction.**

#### **Status of the Trust**

The trust is intended to be treated as a publicly traded partnership exempt from taxation as a corporation. For purposes of applying the qualifying income tests, the trust's share of the company's income will be treated as received

directly by the trust and will retain the same character as it had in the hands of the company.

If the trust were not treated as a publicly traded partnership exempt from taxation as a corporation and, instead, were to be classified as an association taxable as a corporation, the trust would be subject to federal income tax on any taxable income at regular corporate tax rates, thereby reducing the amount of cash available for distribution to the shareholders.

In that event, the holders of shares would not be entitled to take into account their distributive shares of the trust's deductions in computing their taxable income, nor would they be subject to tax on their respective shares of the trust's income. Distributions to a holder would be treated as (i) dividends to the extent of the trust's current or accumulated earnings and profits, (ii) a return of basis to the extent of each holder's basis in its shares, and (iii) gain from the sale or exchange of property to the extent that any remaining distribution exceeds the holder's basis in its shares. Overall, treatment of the trust as an association taxable as a corporation may substantially reduce the anticipated benefits of an investment in the trust.

A publicly traded partnership (as defined in Section 7704 of the Code) is any partnership the interests in which are traded on an established securities market or which are readily tradable on a secondary market (or the substantial equivalent thereof). A publicly traded partnership is treated as a corporation unless 90% or more of its gross income each year is qualifying income (generally, passive-type income) and the partnership is not required to register as an investment company under the Investment Company Act of 1940.

Qualifying income includes dividends, interest and capital gains from the sale or other disposition of stocks and bonds held as capital assets. We intend to restrict the sources of our income so that more than 90% of our gross income for each taxable year will constitute qualifying income within the meaning of Section 7704(d) of the Code.

Under current law and assuming full compliance with the terms of the trust agreement (and other relevant documents) and based upon factual representations made by us and assuming that we satisfied the qualifying income tests for earlier years (in light of the risks discussed in the second following paragraph), in the opinion of Squire, Sanders & Dempsey L.L.P., the trust will be classified as a publicly traded partnership exempt from taxation as a corporation for U.S. federal income tax purposes. The factual representations made by us upon which Squire, Sanders & Dempsey L.L.P. has relied include: (a) the trust has not elected and will not elect to be treated as a corporation for U.S. federal income tax purposes; (b) the trust is not required to register as an investment company under the Investment Company Act of 1940; and (c) for each taxable year, more than 90% of the gross income of the trust will consist of dividends, interest (other than interest derived in the conduct of a financial or insurance business or interest the determination of which depends in whole or in part on the income or profits of any person) and gains from the sale of stock or debt instruments which are held as capital assets.

Squire, Sanders & Dempsey L.L.P. will have no obligation to advise us of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in, or differing IRS interpretation of, the applicable law. Our taxation as a publicly traded partnership exempt from taxation as a corporation will depend on our ability to meet, on a continuing basis, through actual operating results, the qualifying income exception (as described above), the compliance with which will not be reviewed by Squire, Sanders & Dempsey L.L.P. on an ongoing basis. Accordingly, no assurance can be given that the actual results of our operations for any taxable year will satisfy the qualifying income exception. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinions.

There can be no assurance that the IRS will not successfully assert that the trust should be treated as a publicly traded partnership taxable as a corporation. No ruling has been or will be sought from the IRS, and the IRS has made no determination, as to the status of the trust for U.S. federal income tax purposes or whether the company will have sufficient qualifying income under Section 7704(d) of the Code. Whether the company or the trust will continue to meet the qualifying income exception is dependent on the company's continuing activities and the nature of the income generated by those activities. In this regard, while the company does not anticipate realizing any management fee income, the treatment of income earned by our manager from offsetting management services agreements between our manager and the operating businesses is uncertain. The company's board of directors will use its best efforts to cause the company to conduct its activities in such a manner that the trust continues to meet the qualifying income exception.

If the trust fails to satisfy the qualifying income exception described above (other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable period of time after the discovery of such failure and with respect to which certain adjustments are made), the trust will be treated as if it had (i) transferred all of its assets, subject to its liabilities, to a newly-formed corporation on the first day of the year in which it fails to satisfy the exception, in return for stock in that corporation, and (ii) then distributed that stock to the holders of shares

in liquidation of their beneficial interests in the trust. This contribution and liquidation should be tax-free to holders and the trust so long as the trust, at that time, does not have liabilities in excess of its tax basis in its assets. Thereafter, the trust would be treated as a corporation for U.S. federal income tax purposes.



The discussion below is based on the opinion of Squire, Sanders & Dempsey L.L.P. that the trust will be classified as a publicly traded partnership exempt from taxation as a corporation for U.S. federal income tax purposes.

**Status of the Company**

The Company is intended to be treated as a partnership for federal income tax purposes.

**Tax Considerations for U.S. Holders**

***Tax Treatment of the Trust***

As a publicly traded partnership exempt from taxation as a corporation, the trust itself will not be subject to U.S. federal income tax, although it will file an annual partnership information return with the IRS, which information return will report the results of its activities. That information return also will contain schedules reflecting allocations of profits or losses (and items thereof) to shareholders of the trust.

***Tax Treatment of Trust Income to Holders***

Each partner of a partnership is required to take into account its share of items of income, gain, loss, deduction and other items of the partnership. Each holder of shares will directly or indirectly own a pro rata share of trust interests in the company, and thus will be required to include on its tax return its allocable share of trust income, gain, loss, deduction and other items without regard to whether the holder receives corresponding cash distributions. Thus, holders of shares may be required to report taxable income without a corresponding current receipt of cash if the trust were to recognize taxable income and not make cash distributions.

The trust's taxable income is expected to consist mostly of interest income, capital gains and dividends. Interest income will be earned upon the funds loaned by the company to the operating subsidiaries and from temporary investments of the company, and will be taxable to the holders at ordinary income rates. Capital gains will be reported upon the sale of stock or assets by the company, and will be taxed to the holders at the appropriate capital gains rates. Any dividends received by the company from its domestic corporate holdings generally will constitute qualified dividend income, which will, under current law (which, without additional Congressional action, will expire with respect to dividends received after December 31, 2010), qualify for a reduced rate of tax. Any dividends received by the company that do not constitute qualified dividend income will be taxed to holders at the tax rates generally applicable to ordinary income. Dividend income of the company from its domestic operating subsidiaries that is allocated to corporate holders of shares will qualify for the dividends received deduction.

***Allocation of Company Profits and Losses***

Under Section 704 of the Code, the determination of a partner's distributive share of any item of income, gain, loss, deduction, or credit of a partnership shall be governed by the partnership agreement unless the allocation so provided lacks substantial economic effect and is not otherwise in accordance with the partner's interests in the partnership. Accordingly, a holder's share of the company's items of income, gain, loss, deduction, and credit will be determined by the trust agreement, unless the allocations under the trust agreement are determined not to have substantial economic effect and is not otherwise in accordance with the partner's interests in the partnership. Subject to the discussion below in this section and under Tax Considerations for U.S. Holders, Allocations Among Holders and Section 754 Election, we believe that the allocations under the trust agreement should be considered to have substantial economic effect. If the allocations were found to lack substantial economic effect, the allocations nonetheless should be deemed to be made in accordance with the partners' interests in the partnership, a facts and circumstances analysis of the underlying economic arrangement of the company's members.

In general, under the trust agreement, items of ordinary income and loss will be allocated ratably among the holders based on the number of trust interests held. Allocations of capital gains realized by the company will be made first to the manager to the extent of any profit allocation to our manager. Thereafter gains and losses from capital transactions will be allocated among the holders, based on the number of trust interests beneficially held. If the allocations provided by the LLC agreement or trust agreement were successfully challenged by the IRS, the amount of income or loss allocated to holders for U.S. federal income tax purposes could be increased or reduced or the character of the income or loss could be modified.

The U.S. federal income tax rules that apply to partnership allocations are complex, and their application, particularly to exchange-traded partnerships, is not always clear. We will apply certain conventions and assumptions intended to achieve general compliance with the intent of these rules, and to report items of income and loss in a manner that generally reflects a holder's economic gains and losses; however, these conventions and assumptions may not be considered to comply with all aspects of the Regulations. It is, therefore, possible the IRS will successfully assert that certain of the conventions or assumptions are not acceptable, and may require items of company income, gain, loss or deduction to be reallocated in a manner that could be adverse to a holder of shares.

As required by the rules and regulations under Sections 704(b) and 704(c) of the Code (as appropriate), specified items of income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of property contributed to us and our property that has been revalued and reflected in the partners' capital accounts upon the issuance of shares in connection with this offering. An allocation of our items of income, gain, loss and deduction, other than an allocation required by the Code to eliminate the difference between a shareholder's book capital account, credited with the fair market value of contributed or adjusted property, and tax capital account, credited with the tax basis of contributed or adjusted property, referred to in this discussion as the book-tax disparity, will generally be given effect for federal income tax purposes in determining a shareholder's distributive share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect under the Treasury Regulations. In any other case, a shareholder's distributive share of an item will be determined on the basis of the shareholder's interest in us, which will be determined by taking into account all the facts and circumstances, including the shareholder's relative contributions to us, the interests of all the shareholders in profits and losses, the interest of all the shareholders in cash flow and other nonliquidating distributions and rights of all the shareholders to distributions of capital upon liquidation. Under the Code, partners in a partnership cannot be allocated more tax depreciation, gain or loss than the total amount of any such item recognized by that partnership in a particular taxable period (the ceiling limitation). This ceiling limitation is not expected to have significant application to allocations with respect to contributed or adjusted property. However, to the extent the ceiling limitation is or becomes applicable, our partnership agreement requires that certain items of income and deduction be allocated in a way designed to effectively cure this problem and eliminate the impact of the ceiling limitation. Such allocations will not have substantial economic effect because they will not be reflected in the capital accounts of our shareholders. The legislative history of Section 704(c) of the Code states that Congress anticipated that Treasury Regulations would permit partners to agree to a more rapid elimination of book-tax disparities than required provided there is no tax avoidance potential. Further, under Treasury Regulations under Section 704(c) of the Code, allocations similar to our curative allocations would be allowed.

#### ***Treatment of Distributions***

Distributions of cash by a partnership generally are not taxable to the distributee-partner to the extent the amount of cash distributed does not exceed the distributee's tax basis in its partnership interest. Cash distributions made by the company to the trust, which cash distributions the trustee in turn will distribute to the holders of shares, would create taxable gain to a holder only to the extent the distribution were to exceed the holder's tax basis in the trust interests (see the section entitled Tax Basis in Trust Interests). Any cash distribution in excess of a holder's tax basis generally will be considered to be gain from the sale or exchange of the shares (see the section entitled Disposition of Shares below).

Cash distributions to the holders of shares generally will be funded by gain realized by the company and payments to the company from the operating subsidiaries, which payments will consist of interest and principal payments on indebtedness owed to the company, and, subject to availability and board of director's discretion, dividends. After payment of expenses, the company, again subject to the board of director's discretion, intends to distribute the net cash to the trust, which in turn will distribute the net cash to the holders of shares. Distributions that are attributable to payments in amortization of loans made by the company may exceed the company's taxable income, thus, resulting in distributions to the holders of shares that should constitute a return of their investment. As indicated, if cash distributions to a holder exceed the holder's adjusted tax basis in the trust interests such holder is treated as beneficially owning, a taxable gain would result.



### ***Disposition of Shares***

If a U.S. holder transfers shares, the holder will generally be required to recognize gain or loss measured by the difference between the amount realized on the sale and the holder's adjusted tax basis in the interests sold. The amount realized will include the holder's share of the company's liabilities, as well as any proceeds from the sale. The gain or loss recognized will generally be taxable as capital gain or loss, except that the gain or loss will be ordinary (and not capital gain or loss) to the extent attributable to the holder's allocable share of unrealized gain or loss in assets of the company described in Section 751 of the Code (including certain unrealized receivables and inventory). Capital gain of non-corporate U.S. holders is eligible to be taxed at reduced rates where the interests sold are held for more than one year. Capital gain of corporate U.S. holders is taxed at the same rate as ordinary income. Any capital loss recognized by a U.S. holder on a sale of shares will generally be deductible only against capital gains, except that a non-corporate U.S. holder may also offset up to \$3,000 per year of ordinary income.

Pursuant to certain IRS rulings, a partner is treated as having a single, unified basis in all partnership interests that it owns. As a result, if a holder acquires shares at different prices and sells less than all of its shares, such holder will not be entitled to specify particular shares as having been sold (as it could do if the company were a corporation). Rather, the holder should determine its gain or loss on the sale by using an equitable apportionment method to allocate a portion of its unified basis to its shares sold. For example, if a holder purchased 200 shares for \$10 per share and 200 shares for \$20 per share (and assuming no other adjustments to basis), the holder would have a unified basis of \$6,000 in its 400 shares. If the holder sold 100 of its shares, the adjusted basis in the shares sold would be \$1,500.

Gain or loss recognized by a holder on the sale or exchange of shares held for more than one year will generally be taxable as long-term capital gain or loss; otherwise, such gain or loss will generally be taxable as short-term capital gain or loss. A special election is available under the Regulations that will allow a holder to identify and use the actual holding periods for the shares sold for purposes of determining long-term capital gain or loss. If a holder fails to make the election or is not able to identify the holding periods for shares sold, the holder likely will have a fragmented holding period in the shares sold.

*A holder that sells some or all of its shares is urged to consult its tax advisor to determine the proper application of these rules in light of the holder's particular circumstances.*

### ***Tax Basis in Trust Interests***

A U.S. holder's initial tax basis in its shares will equal the sum of (a) the amount of cash paid by such holder for its shares, and (b) such holder's share of the company's liabilities. A U.S. holder's tax basis in the trust interests will be increased by (a) the holder's share of the company's taxable income, including capital gain, (b) the holder's share of the company's income, if any, that is exempt from tax and (c) any increase in the holder's share of the company's liabilities. A U.S. holder's tax basis in the trust interests will be decreased (but not below zero) by (a) the amount of any cash distributed (or deemed distributed) to the holder, (b) the holder's share of the company's losses and deductions, (c) the holder's share of the company's expenditures that are neither deductible nor properly chargeable to a capital account and (d) any decrease in the holder's share of the company's liabilities.

### ***Treatment of Securities Loans***

A U.S. holder whose shares are loaned to a short seller to cover a short sale of shares may be considered to have disposed of those shares. If so, such holder would no longer be regarded as a beneficial owner of a portion of the trust interests with respect to those shares during the period of the loan and may recognize gain or loss from the disposition. As a result, during the period of the loan (i) company income, gain, loss, deduction or other items with respect to those shares would not be includible or reportable by the holder, and (ii) cash distributions received by the holder with respect to those shares could be fully taxable, likely as ordinary income. A holder who participates in any such transaction is urged to consult with its tax adviser.

### ***Limitations on Interest Deductions***

The deductibility of a non-corporate U.S. holder's investment interest expense is generally limited to the amount of such holder's net investment income. Investment interest expense would generally include interest expense incurred by the company, if any, and interest expense incurred by the U.S. holder on any margin account borrowing or other loan incurred to purchase or carry shares of the trust. Net investment income includes gross income from property held for investment and amounts treated as portfolio income, such as dividends and interest, under the passive loss rules, less

deductible expenses, other than interest, directly connected with the production of investment income. For this purpose, any long-term capital gain or qualifying dividend income that is taxable at long-term capital gains rates is excluded from net investment income unless the holder elects to pay tax on such gain or dividend income at ordinary income rates.

***Management Fees and Other Expenses***

The company will pay an annual management fee to our manager. The company will also pay certain costs and expenses incurred in connection with activities of our manager. The company intends to deduct such fees and expenses to the extent that they are reasonable in amount and are not capital in nature or otherwise nondeductible. The management fees and other expenses should generally constitute miscellaneous itemized deductions for individual U.S. holders of shares. Accordingly, as described immediately below, certain limitations on deductibility of such fees and expenses by the shareholder could reduce or eliminate any associated tax benefits. Corporate U.S. holders of shares generally will not be subject to these limitations.

In general, a U.S. holder's share of the expenses incurred by the company that are considered miscellaneous itemized deductions may be deducted by a U.S. holder that is an individual, estate or trust only to the extent that the holder's share of the expenses exceeds 2% of the adjusted gross income of such holder. The Code imposes additional limitations (which are scheduled to be phased out between 2006 and 2010) on the amount of certain itemized deductions allowable to individuals, by reducing the otherwise allowable portion of such deductions by an amount equal to the lesser of:

3% of the individual's adjusted gross income in excess of certain threshold amounts; or

80% of the amount of certain itemized deductions otherwise allowable for the taxable year.

Organizational and syndication expenses, in general, may not be deducted currently by either the company or any U.S. holder of shares. An election may be made by the company to amortize organizational expenses over a 180-month period. Syndication expenses cannot be amortized or deducted.

The company will report such expenses on a pro rata basis, and each U.S. holder will be required to determine separately to what extent these items are deductible on such holder's tax return. A U.S. holder's inability to deduct all or a portion of such expenses could result in such holder's reporting as its share of company taxable income an amount that exceeds any cash actually distributed to such U.S. holder for the year.

***Section 754 Election***

Both the trust and the company have made the election permitted by Section 754 of the Code. Such an election, once made, is irrevocable without the consent of the IRS. The election will generally require, in connection with a purchase of shares in the open market, that the trust and the company adjust its proportionate share of the tax basis in the their assets, or the inside basis, pursuant to Section 743(b) of the Code to fair market value (as reflected in the purchase price for the purchaser's shares), as if the purchaser of shares had acquired a direct interest in the assets. The Section 743(b) basis adjustment is attributed solely to a purchaser of shares and does not affect the tax basis of the company's assets associated with other holders. The Section 754 election, however, could result in adjustments to the common basis of the company's assets, under Section 734, in connection with certain distributions.

Generally, the Section 754 election is intended to eliminate the disparity between a purchaser's outside tax basis in its shares and its share of inside tax basis of the assets such that the amount of gain or loss allocable to the purchaser on the disposition by the company of its assets will correspond to the purchaser's share in the appreciation or depreciation in the value of such assets since the purchaser acquired its shares. The consequences of this basis adjustment may be favorable or unfavorable as to the purchaser-holder.

The calculations under Section 754 of the Code are complex, and there is little legal authority concerning the mechanics of the calculations, particularly in the context of publicly traded partnerships. To help reduce the complexity of those calculations and the resulting administrative costs to the company, the company will apply certain simplifying conventions in determining and allocating these inside basis adjustments. It is possible that the IRS will successfully assert that the conventions utilized by the company do not satisfy the technical requirements of the Code or the Regulations and, thus, will require different basis adjustments to be made. If different adjustments were to be required by the IRS, some holders could be adversely affected.

***Limitations on Deductibility of Losses***

The deduction by a U.S. holder of its share of the company's losses, if any, will be limited to the lesser of (i) the tax basis in such holder's shares or (ii) in the case of a holder that is an individual or a closely-held corporation (a corporation where more than fifty percent (50%) of the value of its stock is owned directly or indirectly by five or fewer individuals or certain tax-exempt organizations), the amount which the holder is considered to be at risk with respect to certain activities of the trust. In general, the amount at risk includes the holder's actual amount paid for the shares and any share of company debt that constitutes qualified nonrecourse financing. The amount at risk excludes any amount the holder borrows to acquire or hold its shares if the lender of such borrowed funds owns shares or can look only to shares for repayment. Losses in excess of the amount at risk must be deferred until years in which the company generates taxable income against which to offset such carryover losses.

***Passive Activity Income and Loss***

The passive activity loss limitations generally provide that individuals, estates, trusts and certain closely-held corporations and personal service corporations can deduct losses from passive activities (generally, activities in which the taxpayer does not materially participate) only to the extent of the taxpayer's income from passive activities. It is expected that holders will not recognize any passive activity income or passive activity loss as a result of an investment in shares.

***Allocations Among Holders***

In general, the company's profits and losses (other than capital gains and losses) will be determined on an annual basis and will be prorated on a monthly basis, to be apportioned among the holders in proportion to the number of shares of the trust owned by each holder as of the close of the last trading day of the preceding month. As a result, a seller of shares prior to the close of the last trading day of a month may be allocated income or deductions realized by the company following the date of sale. Furthermore, all dividends and distributions by the company will be made to the transferor of shares if the record date is on or before the date of transfer; similarly, if the record date is after the date of transfer, dividends and distributions shall be made to the transferee. Thus, a holder who owns shares as of the last trading day of any month and who disposes of the shares prior to the record date set for a cash distribution for that month, would be allocated items of income or loss attributable to the next succeeding month but would not be entitled to receive the cash distribution.

The trust will allocate capital gains and losses to the holders of shares on the actual date on which such gains or losses are realized.

The Code generally requires that items of partnership income, gain, loss and deduction be allocated between transferors and transferees of partnership interests on a daily basis to take into account changes in the make-up of the partnership. It is possible that a transfer of shares could be considered to occur for U.S. federal income tax purposes on the day when the transfer is completed without regard to the trust's monthly convention for allocating profit and loss. In that event, the trust's allocation method might be considered a method that does not comply with the tax laws.

If the IRS were to treat the transfer of shares as occurring throughout each month, and the use of a monthly convention were not allowed, or if the IRS otherwise does not accept the trust's allocation conventions, the IRS may contend that taxable income or losses of the trust must be reallocated among the holders. If such a contention by the IRS were sustained, the holders' respective tax liabilities would be adjusted to the possible detriment of certain holders. The company's board of directors is authorized to revise the trust's allocation methods in order to comply with the applicable tax laws or to allocate items of trust income, gain, loss or deduction in certain instances in a manner that may more accurately reflect the holders' respective beneficial interests in the trust as may be necessary.

Proposed Regulations would change the permissible methods and conventions for allocating income, gain and loss among partners. Such proposed regulations would generally be effective on the date promulgated in final form, but not before the first taxable year beginning after December 31, 2009. Certain provisions of the proposed regulations concerning conventions would not apply to existing publicly traded partnerships. Under a safe harbor in the proposed regulations, publicly traded partnerships may use either the interim closing of the books method or the proration method, and under either method may use a convention that treats all changes in a partner's interest during a calendar month as occurring on the first day of the following month, or may use a semi-monthly convention. Under the semi-monthly convention, any variation in a partner's interest occurring on the first through the fifteenth day of a calendar month is deemed to occur on the last day of the prior month, and variations occurring on the sixteenth through the last day of a month are deemed to occur on the fifteenth day of the month. Block transfers (generally transfers during any 30 day period of more than two percent of the interests in the partnership) do not qualify for this safe harbor. The proposed regulations generally provide that partnerships using the proration method must account for extraordinary items on the day on which they occur. Extraordinary items include gains from sales of assets. If required, the trust intends to revise its allocation methods and conventions to comply with the new regulations when effective.

#### ***Constructive Termination***

The trust will be considered to have terminated for tax purposes if there is a sale or exchange of 50 percent or more of the total shares within a 12-month period. A constructive termination results in the closing of the trust's taxable year for all holders. In the case of a holder reporting on a taxable year other than a fiscal year ending December 31, the closing of the trust's taxable year may result in more than 12 months of its taxable income or loss being includable in such holder's taxable income for the year of termination. The trust would be required to make new tax elections after a termination, including a new election under Section 754. A termination could also result in penalties if the trust were unable to determine that the termination has occurred.

#### ***Tax Reporting by the Trust and the Company***

Information returns will be filed by the trust and the company with the IRS, as required, with respect to income, gain, loss, deduction and other items derived from the company's activities. The trust and the company will file a partnership return with the IRS and issue a Schedule K-1. We further expect that the relevant and necessary information for tax purposes also will be readily available electronically through our website. Each holder will be deemed to have consented to provide relevant information, and if the shares are held through a broker or other nominee, to allow such broker or other nominee to provide such information as is reasonably requested by us for purposes of complying with our tax reporting obligations.

#### ***Audits and Adjustments to Tax Liability***

A challenge by the IRS, such as in a tax audit, to the tax treatment by a partnership of any item generally must be conducted at the partnership, rather than at the partner, level. A partnership ordinarily designates a tax matters partner (as defined under Section 6231 of the Code) as the person to receive notices and to act on behalf of the partnership and the partners in the conduct of such a challenge or audit by the IRS. The trust has designated Jim Bottiglieri as the tax matters member, who shall serve as the tax matters partner.

Our tax matters member, which is required by the trust agreement to notify all holders of any U.S. federal income tax audit of the trust, will have the authority under the trust agreement to conduct, respond to, and if appropriate, contest (including by pursuing litigation) any IRS audit of the trust's tax returns or other tax-related administrative or judicial proceedings and, if considered appropriate, to settle such proceedings. A final determination of U.S. tax matters in any proceeding initiated or contested by the tax matters partner will be binding on all holders of shares who held their shares during the period for which the audit adjustment is made. As the tax matters member, Jim Bottiglieri will have the right on behalf of all holders to extend the statute of limitations relating to the holders' U.S. federal income tax liabilities with respect to trust items.

A U.S. federal income tax audit of the trust's information return may result in an audit of the tax return of a holder of shares, which, in turn, could result in adjustments to a holder's items of income and loss that are unrelated to the company as well as to company-related items. There can be no assurance that the IRS, upon an audit of an information return of the trust or of an income tax return of a U.S. holder, might not take a position that differs from the treatment



thereof by the trust or by such holder, possibly resulting in a tax deficiency. A holder would also be liable for interest on any tax deficiency that resulted from any such adjustments. Potential U.S. holders should also recognize that they might be forced to incur legal and accounting costs in resisting any challenge by the IRS to items in their individual returns, even if the challenge by the IRS should prove unsuccessful.

### ***Foreign Tax Credits***

Subject to generally applicable limitations, a U.S. holder of shares will be able to claim foreign tax credits with respect to certain foreign income taxes (if any) paid or incurred by the trust or the company, withheld on payments made to the company or paid by the company on behalf of holders. If a holder elects to claim a foreign tax credit, it must include in its gross income, for U.S. federal income tax purposes, both its share of the trust's items of income and gain and also its share of the amount which is deemed to be the holder's portion of foreign income taxes paid with respect to, or withheld from, dividends, interest or other income derived by the company. Subject to certain limitations, the U.S. holder may claim as a credit against its U.S. federal income tax the amount of such taxes incurred or withheld. Alternatively, a U.S. holder may elect to treat such foreign taxes as deductions from gross income. Even if the holder is unable to claim a credit or a deduction, he or she must include all amounts described above in income. We urge U.S. holders to consult their tax advisers regarding this election and its consequences to them.

### ***Taxation of Certain Foreign Earnings***

Under Subpart F of the Code, certain undistributed earnings and certain passive income of a foreign company constituting a controlled foreign corporation, or CFC, as defined in the Code, are taxed to certain U.S. shareholders prior to being distributed. None of the businesses in which the company currently intends to invest are CFCs; however, no assurances can be given that other businesses in which the company may invest in the future will not be CFCs. While distributions made by a foreign company could generally constitute qualified dividend income eligible for a reduced rate of tax; the Subpart F provisions of the Code may operate to prevent distributions (or deemed distributions) of such earnings from being so regarded. Additionally, if the company were to invest in a passive foreign investment company, or PFIC, a U.S. holder of shares may be subject to certain adverse U.S. federal income tax consequences, including a deferred interest charge upon the distribution of previously accumulated earnings with respect to that investment.

### ***Reportable Transaction Disclosure Rules***

There are circumstances under which certain transactions must be disclosed to the IRS in a disclosure statement attached to a taxpayer's U.S. federal income tax return (a copy of such statement must also be sent to the IRS Office of Tax Shelter Analysis). In addition, the Code imposes a requirement on certain material advisers to maintain a list of persons participating in such transactions, which list must be furnished to the IRS upon written request. These provisions can apply to transactions not conventionally considered to involve abusive tax planning. Consequently, it is possible that such disclosure could be required by the company or the holders of shares if, for example, a holder incurs a loss (in excess of a threshold computed without regard to offsetting gains or other income or limitations) from the disposition of shares. While the tax shelter disclosure rules generally do not apply to a loss recognized on the disposition of an asset in which the taxpayer has a qualifying basis (generally a basis equal to the amount of cash paid by the taxpayer for such asset), such rules will apply to a taxpayer recognizing a loss with respect to interests (such as the shares) in a pass-through entity even if its basis in such interests is equal to the amount of cash it paid. We urge U.S. holders to consult their tax advisers regarding the tax shelter disclosure rules and the possible application of these rules to them.

### ***Non-U.S. Holders***

A non-U.S. holder will not be subject to U.S. federal income tax on such holder's distributive share of the trust's income, provided that such income is not considered to be effectively connected with the conduct of a trade or business within the United States. However, in the case of an individual non-U.S. holder, such holder will be subject to U.S. federal income tax on gains on the sale of shares in the trust or such holder's distributive share of trust gains if such holder is present in the United States for 183 days or more during a taxable year and certain other conditions are met.

The company should not be treated as engaged in a trade or business within the United States and therefore should not realize income that would be treated as effectively connected with the conduct of a U.S. trade or business. If the income from the company is effectively connected with a U.S. trade or business (and, if certain income tax treaties apply, is attributable to a U.S. permanent establishment), then a non-U.S. holder's share of any company income and of any gain realized upon the sale or exchange of shares will be subject to U.S. federal income tax at the graduated rates applicable to U.S. citizens and residents and domestic corporations, and such non-U.S. holder will be subject to tax

return filing requirements in the U.S. Non-U.S. holders that are corporations may also be subject to a 30% branch profits tax (or lower treaty rate, if applicable) on their effectively connected earnings and profits that are not timely reinvested in a U.S. trade or business.

In addition, gains, if any, allocable to a non-U.S. holder and attributable to a sale by the company of a U.S. real property interest, or USRPI (other than such gains subject to tax under the rules discussed above), are generally subject to U.S. federal income tax as if such gains were effectively connected with the conduct of a U.S. trade or business. Moreover, a withholding tax is imposed with respect to such gain as a means of collecting such tax. For this purpose, a USRPI includes an interest (other than solely as a creditor) in a U.S. real property holding corporation (in general, a U.S. corporation, at least 50% of whose real estate and trade or business assets, measured by fair market value, consists of USRPIs), as well as an interest in a partnership that holds USRPIs. This withholding tax would be creditable against a non-U.S. holder's actual U.S. federal income tax liability and any excess withholding tax may generally be eligible for refund. Although a non-U.S. holder who is a partner in a partnership that owns USRPIs is generally subject to tax on its sale or other disposition of its partnership interest to the extent attributable to such USRPIs, no withholding tax is generally imposed on the transfer of publicly traded partnership interests, and gain will not be taxable under the USRPI provisions where the non-U.S. holder owns no more than 5% of a publicly traded entity such as the trust. A non-U.S. holder that owns more than 5% of the company is urged to consult its tax adviser about the potential application of the USRPI provisions. We have made no determination as to whether any of the company's investments will constitute a USRPI.

While generally not subject to U.S. federal income tax as discussed above, a non-U.S. holder generally will be subject to U.S. federal withholding tax at the rate of 30% (or, under certain circumstances, at a reduced rate provided by an income tax treaty, if applicable) in respect of such holder's distributive share of dividends from U.S. corporations and certain other types of U.S.-source income realized by the company. To the extent any interest income allocated to a non-U.S. holder that otherwise would be subject to U.S. withholding tax is considered portfolio interest, neither the allocation of such interest income to the non-U.S. holder nor a subsequent distribution of such interest income to the non-U.S. holder will be subject to withholding, provided (among other things) that the non-U.S. holder is not otherwise engaged in a trade or business in the U.S. and provides us with a timely and properly completed and executed form W-8BEN or other applicable form and said holder does not directly or indirectly own 10 percent or more of the shares or capital of the interest payor. The withholding tax as described herein will apply upon the earlier of the distribution of income to a non-U.S. holder or, if not previously distributed to a non-U.S. holder, at the time such income is allocated to a non-U.S. holder. Amounts withheld on behalf of a non-U.S. holder will be treated as being distributed to such non-U.S. holder; however, to the extent we are unable to associate amounts withheld with particular trust interests, the economic burden of any withholding tax paid by us to the appropriate tax authorities will be borne by all holders, including U.S. holders.

A non-U.S. holder will be subject to U.S. federal estate tax on the value of U.S.-situs property owned at the time of his or her death. It is unclear whether partnership interests will be considered U.S.-situs property. Accordingly, a non-U.S. holder is urged to consult its tax advisors to determine whether such holder's estate would be subject to U.S. federal estate tax on all or part of the value of the trust interests beneficially owned at the time of his or her death.

Non-U.S. holders will be required to timely and accurately complete a form W-8BEN (or other applicable form) and provide such form to us, for withholding tax purposes. Non-U.S. holders are advised to consult their own tax advisers with respect to the particular tax consequences to them of an investment in the company.

### **Regulated Investment Companies**

Interests in and income from qualified publicly traded partnerships satisfying certain gross income tests are treated as qualifying assets and income, respectively, for purposes of determining eligibility for regulated investment company, or RIC, status. A RIC may invest up to 25% of its assets in interests of a qualified publicly traded partnership. The determination of whether a publicly traded partnership such as the trust is a qualified publicly traded partnership is made on an annual basis. The trust likely will not qualify to be treated as a qualified publicly traded partnership. However, because the trust expects to satisfy the gross income requirements of Section 7704(c)(2) (determined as provided in Section 851(h)), the trust anticipates the flow-thru of at least 90% of its gross income to constitute qualifying income for regulated investment company testing purposes.

### **Tax-Exempt Organizations**

With respect to any holder that is an organization that is otherwise exempt from U.S. federal income tax, such holder nonetheless may be subject to taxation with respect to its unrelated business taxable income, or UBTI, to the extent that its UBTI from all sources exceeds \$1,000 in any taxable year. Except as noted below with respect to certain categories of exempt income, UBTI generally includes income or gain derived (either directly or through a partnership) from a trade or business, the conduct of which is substantially unrelated to the exercise or performance of the organization's exempt purpose or function.

UBTI generally does not include passive investment income, such as dividends, interest and capital gains, whether realized by the organization directly or indirectly through a partnership (such as the company) in which it is a partner. This type of income is exempt, subject to the discussion of unrelated debt-financed income below, even if it is realized from securities trading activity that constitutes a trade or business.

UBTI includes not only trade or business income or gain as described above, but also unrelated debt-financed income. This latter type of income generally consists of (1) income derived by an exempt organization (directly or through a partnership) from income-producing property with respect to which there is acquisition indebtedness at any time during the taxable year and (2) gains derived by an exempt organization (directly or through a partnership) from the disposition of property with respect to which there is acquisition indebtedness at any time during the twelve-month period ending with the date of the disposition.

The company expects to incur debt that would be treated as acquisition indebtedness with respect to certain of its investments. To the extent the company recognizes income in the form of dividends or interest from any investment with respect to which there is acquisition indebtedness during a taxable year, the percentage of the income that will be treated as UBTI generally will be equal to the amount of the income from such investment times a fraction, the numerator of which is the average acquisition indebtedness incurred with respect to the investment, and the denominator of which is the average amount of the adjusted basis of the company's investment during the period such investment is held by the company during the taxable year.

To the extent the company recognizes gain from the disposition of any company investment with respect to which there is acquisition indebtedness, the portion of the gain that will be treated as UBTI will be equal to the amount of the gain times a fraction, the numerator of which is the highest amount of the acquisition indebtedness with respect to the investment during the twelve-month period ending with the date of disposition, and the denominator of which is the average amount of the adjusted basis of the investment during the period such investment is held by the company during the taxable year.

### **Certain State and Local Taxation Matters**

State and local tax laws often differ from U.S. federal income tax laws with respect to the treatment of specific items of income, gain, loss, deduction and credit. A holder's distributive share of the taxable income or loss of the trust generally will be required to be included in determining its reportable income for state and local tax purposes in the jurisdiction in which the holder is a resident. Also, the company may conduct business in jurisdictions in which a holder is not a resident that could subject a holder to income tax in that jurisdiction (and require a holder to file an income tax return with that jurisdiction in respect of the holder's share of the income derived from that business). A prospective holder should consult its tax advisor with respect to the availability of a credit for such tax in the jurisdiction in which the holder is resident. Moreover, prospective holders should consider, in addition to the U.S. federal income tax consequences described above, potential state and local tax considerations in investing in the shares.

### **Backup Withholding**

The trust is required in certain circumstances to withhold tax (called backup withholding) on certain payments paid to noncorporate holders of shares who do not furnish their correct taxpayer identification number (in the case of individuals, their social security number) and certain certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.



Each holder of shares should be aware that certain aspects of the U.S. federal, state and local income tax treatment regarding the purchase, ownership and disposition of shares are not clear under existing law. Thus, we urge each holder to consult its own tax advisers to determine the tax consequences of ownership of the shares in such holder's particular circumstances.

#### **LEGAL MATTERS**

The validity of the shares being offered hereby will be passed upon for us by Richards, Layton & Finger, P.A., Wilmington, Delaware. Certain legal matters in connection with the shares being offered hereby will be passed upon for us by Squire, Sanders & Dempsey L.L.P., Cincinnati, Ohio. Attorneys at Squire, Sanders & Dempsey L.L.P. beneficially own an aggregate of approximately 77,259 shares of the trust.

#### **EXPERTS**

The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting of Compass Diversified Holdings as at December 31, 2008 and 2007 and for the three year period ending December 31, 2008 incorporated by reference in this prospectus and elsewhere in the registration statement have been so incorporated by reference in reliance upon the reports of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said reports.

#### **WHERE YOU CAN FIND MORE INFORMATION**

We file reports, proxy statements, and other information with the SEC. Such reports, proxy statements, and other information concerning us can be read and copied at the SEC's Public Reference Room at 101 F Street, N.E., Washington, D.C. 20549. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet website is <http://www.sec.gov>. Please call the SEC at 1 800 SEC 0330 for further information on the operations of the Public Reference Room. We maintain an Internet website at <http://www.compassdiversifiedholdings.com>. The information on our website is not a part of this prospectus.

We have filed a registration statement on Form S-3 to register with the SEC the securities covered by this prospectus. This prospectus is a part of the registration statement and does not contain all the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document, the reference is only a summary and you should refer to the exhibits that are a part of the registration statement or our other SEC filings for a copy of the contract or other document.

#### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

We incorporate by reference into this prospectus some of the information we file with the SEC. This permits us to disclose important information to you by referring you to those filings. The information incorporated by reference is considered to be a part of this prospectus. Any information contained in future SEC filings will automatically update and supersede the information contained in this prospectus. We incorporate by reference the documents listed below that have been filed with the SEC:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC on March 13, 2009, as amended on April 9, 2009;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, filed with the SEC on May 8, 2009;

our definitive Proxy Statement, in connection with our 2009 Annual Meeting of Shareholders, filed with the SEC on April 13, 2009;

our Current Reports on Form 8-K, filed with the SEC on January 9, 2009, February 18, 2009, April 9, 2009, May 6, 2009 and May 19, 2009; and

the description of our shares contained in Form 8-A filed with the SEC on April 26, 2006.

We also incorporate by reference any future filings (other than current reports on Form 8 K that are furnished rather than filed) made with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, until we file a post-effective amendment which indicates the termination of the offering of the securities made by this prospectus.

We will provide without charge upon written or oral request a copy of any or all of the documents that are incorporated by reference into this prospectus, other than exhibits unless specifically incorporated by reference into such documents. Requests should be directed to:

Compass Diversified Holdings  
Sixty-One Wilton Road  
Westport, CT 06880  
Telephone number (203) 221-1703  
Attention: Investor Relations

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**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

The estimated expenses in connection with the distribution of the securities being registered, all of which are to be paid by us, are as follows:

|   |           |
|---|-----------|
| Securities and Exchange Commission Registration Fee | \$ 11,160 |
| Legal Fees and Expenses                             | 175,000   |
| Accounting Fees and Expenses                        | 45,000    |
| Miscellaneous Fees and Expenses                     | 5,000     |
| Total   | \$236,160 |

**ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

Certain provisions of our LLC agreement are intended to be consistent with Section 145 of the Delaware General Corporation Law, which provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceedings to which he is, or is threatened to be made, a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceedings, if such person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

Our LLC agreement includes a provision that eliminates the personal liability of its directors for monetary damages for breach of fiduciary duty as a director, except for liability:

for any breach of the director's duty of loyalty to the company or its members;

for acts or omissions not in good faith or a knowing violation of law;

regarding unlawful dividends and stock purchases analogous to Section 174 of the DGCL; or

for any transaction from which the director derived an improper benefit.

Our LLC agreement provides that:

we must indemnify our directors and officers to the equivalent extent permitted by DGCL;

we may indemnify our other employees and agents to the same extent that we indemnified our officers and directors, unless otherwise determined by the company's board of directors; and

we must advance expenses, as incurred, to our directors and executive officers in connection with a legal proceeding to the extent permitted by Delaware law and may advance expenses as incurred to our other employees and agents, unless otherwise determined by the company's board of directors.

The indemnification provisions contained in our LLC agreement are not exclusive of any other rights to which a person may be entitled by law, agreement, vote of members or disinterested directors or otherwise.

In addition, we will maintain insurance on behalf of our directors and executive officers and certain other persons insuring them against any liability asserted against them in their respective capacities or arising out of such status.

## ITEM 16. EXHIBITS

An Exhibit Index has been attached as part of this registration statement and is incorporated herein by reference.

## ITEM 17. UNDERTAKINGS

A. The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (A)(1)(i), (A)(1)(ii) and (A)(1)(iii) do not apply if the registration statement is on Form S-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

B. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

C. The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Exchange Act; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

D. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment of expenses incurred or paid by a director, officer or controlling person in a successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to the court of appropriate jurisdiction the question whether such indemnification by it is against

public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Westport, State of Connecticut, on the 26th day of May, 2009.

COMPASS DIVERSIFIED HOLDINGS

By: COMPASS GROUP DIVERSIFIED

HOLDINGS LLC, as Sponsor

By: /s/ James J. Bottiglieri

James J. Bottiglieri  
Chief Financial Officer

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Westport, State of Connecticut, on the 26th day of May, 2009.

COMPASS GROUP DIVERSIFIED HOLDINGS  
LLC

By: /s/ James J. Bottiglieri

James J. Bottiglieri  
Chief Financial Officer  
SP-1

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Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated. This document may be executed by the signatories hereto on any number of counterparts, all of which shall constitute one and the same instrument.

| <b>Signature</b>         | <b>Title</b>   | <b>Date</b>  |
|--------------------------|--|--------------|
| *                        | Principal Executive Officer and<br>Director                                  | May 26, 2009 |
| I. Joseph Massoud        |  |              |
| /s/ James J. Bottiglieri | Principal Financial Officer,<br>Principal Accounting Officer and<br>Director | May 26, 2009 |
| James J. Bottiglieri     |  |              |
| *                        | Director   | May 26, 2009 |
| C. Sean Day              |  |              |
| *                        | Director   | May 26, 2009 |
| D. Eugene Ewing          |  |              |
| *                        | Director   | May 26, 2009 |
| Gordon M. Burns          |  |              |
| *                        | Director   | May 26, 2009 |
| Harold S. Edwards        |  |              |
| *                        | Director   | May 26, 2009 |
| Mark H. Lazarus          |  |              |

\* By /s/ James J. Bottiglieri

James J. Bottiglieri

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## INDEX TO EXHIBITS

### Exhibit

### Number Exhibit Description

- 1.1 Underwriting Agreement<sup>(1)</sup>
- 4.1 Specimen Certificate evidencing a share of trust of Compass Diversified Holdings <sup>(2)</sup>
- 4.2 Specimen Certificate evidencing an interest of Compass Group Diversified Holdings LLC <sup>(3)</sup>
- 5.1 Form of Opinion of Richards, Layton & Finger, P.A. <sup>(4)</sup>
- 5.2 Form of Opinion of Richards, Layton & Finger, P.A. <sup>(4)</sup>
- 8.1 Form of Tax Opinion of Squire, Sanders & Dempsey L.L.P. <sup>(4)</sup>
- 23.1 Consent of Richards, Layton & Finger, P.A. (included in Exhibits 5.1 and 5.2)
- 23.2 Consent of Squire, Sanders & Dempsey L.L.P. (included in Exhibit 8.1)
- 23.3 Consent of Grant Thornton LLP <sup>(4)</sup>
- 24.1 Powers of Attorney (included on signature page)

(1) To be filed as an exhibit to a Current Report on Form 8-K to be filed by the Registrant in connection with a specific offering.

(2) Previously filed within Exhibit 4.1 to Compass Diversified Holdings and Compass Group Diversified Holdings LLC s registration statement on Form S-3 (File No. 333-147218) filed on November 7,

2007.

- (3) Previously filed within Exhibit 3.2 to Amendment No. 4 to Compass Diversified Holdings and Compass Group Diversified Holdings LLC's registration statement on Form S-1 (File No. 333-130326-01) filed on April 26, 2006.

- (4) Previously filed.

Ex-1