

Compass Diversified Holdings
Form 424B3
June 03, 2009

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but it is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-159339

Subject to Completion, Dated June 3, 2009

*PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated June 1, 2009)*

5,100,000 Shares

*EACH SHARE REPRESENTS
ONE BENEFICIAL INTEREST
IN COMPASS DIVERSIFIED HOLDINGS*

We are offering to sell 5,100,000 shares of Compass Diversified Holdings, which we refer to as the trust. Each share of the trust represents one undivided beneficial interest in the trust property. The purpose of the trust is to hold 100% of the limited liability company interests, which we refer to as 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.

The shares trade on the Nasdaq Global Select Market under the symbol CODI. On June 2, 2009, the closing price of the shares on the Nasdaq Global Select Market was \$9.54.

You should read this prospectus supplement and the accompanying prospectus carefully before you invest. Investing in our shares involves risks. See the section entitled Risk Factors, beginning on page S-11 of this prospectus supplement and in the documents we file with the Securities and Exchange Commission that are incorporated in this prospectus supplement and the accompanying prospectus by reference for certain risks and uncertainties you should consider.

Per Share Total

Edgar Filing: Compass Diversified Holdings - Form 424B3

Public offering price	\$	\$
Underwriting discount and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters may also purchase up to an additional 765,000 shares from us at the public offering price, less the underwriting discount and commissions, within 30 days of the date of this prospectus supplement to cover overallotments, if any.

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

The underwriters expect to deliver the shares in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about June , 2009.

Sole Book-Running Manager

MORGAN STANLEY

Co-Managers

JANNEY MONTGOMERY SCOTT

MORGAN KEEGAN & COMPANY, INC.

RBC CAPITAL MARKETS

STIFEL NICOLAUS

Prospectus Supplement dated , 2009

TABLE OF CONTENTS

	Page
Prospectus Supplement	
<u>Note to Reader</u>	S-ii
<u>About this Prospectus Supplement</u>	S-ii
<u>Cautionary Note Regarding Forward-Looking Statements</u>	S-ii
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-11
<u>Use of Proceeds</u>	S-13
<u>Pro Forma Capitalization</u>	S-14
<u>Price Range of Shares and Distributions</u>	S-15
<u>Dividend and Distribution Policy</u>	S-16
<u>Underwriting</u>	S-18
<u>Validity of Securities</u>	S-21
<u>Experts</u>	S-21

	Page
Prospectus	
<u>Note to Reader</u>	ii
<u>About this Prospectus</u>	ii
<u>Prospectus Supplements or Term Sheet</u>	ii
<u>Cautionary Note Regarding Forward-Looking Statements</u>	ii
<u>Summary</u>	1
<u>Risk Factors</u>	2
<u>Use of Proceeds</u>	2
<u>Plan of Distribution</u>	2
<u>Description of Shares</u>	4
<u>Material U.S. Federal Income Tax Considerations</u>	11
<u>Legal Matters</u>	23
<u>Experts</u>	23
<u>Where You Can Find More Information</u>	23
<u>Incorporation of Certain Documents by Reference</u>	24

NOTE TO READER

In reading this prospectus supplement, references to:

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

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

ABOUT THIS PROSPECTUS SUPPLEMENT

We provide information to you about our shares in two separate documents: (1) this prospectus supplement, which describes the specific terms of this offering of our shares and adds to and updates the information contained in the accompanying prospectus and the documents incorporated by reference in the accompanying prospectus, and (2) the accompanying prospectus, which provides general information about shares we may offer from time to time. If the information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement. You should read both this prospectus supplement and the accompanying prospectus, together with additional information described under the heading Incorporation of Certain Information by Reference.

In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with any other information. If you receive any information not authorized by us, you should not rely on it.

Our shares are being offered for sale only in places where offers and sales are permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of our shares in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about and observe any restrictions relating to the offering of our shares and the distribution of this prospectus supplement and the accompanying prospectus outside the United States. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than its respective date.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, including the sections entitled Prospectus Supplement 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

S-ii

words such as project, predict, believe, anticipate, plan, expect, estimate, intend, should, would, may or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this prospectus supplement 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 cash flow available for distribution and reinvestment and our ability to make distributions in the future to our shareholders;

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;

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 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;

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 supplement 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 supplement may not occur. These forward-looking statements are made as of the date of this prospectus supplement. 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.

PROSPECTUS SUPPLEMENT SUMMARY

This prospectus supplement summary highlights information contained elsewhere in this prospectus supplement and in the documents we file with the SEC that are incorporated by reference in this prospectus supplement. 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 carefully the entire prospectus supplement and the accompanying prospectus and the information incorporated by reference in this prospectus supplement and accompanying prospectus, 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, as amended, in each case as updated or supplemented by subsequent periodic reports that we file with the SEC, before making an investment decision. Further, unless the context otherwise indicates, numbers in this prospectus supplement have been rounded and are, therefore, approximate.

S-1

BUSINESS

Compass Diversified Holdings, a Delaware statutory trust, which we refer to as the trust, was incorporated in Delaware on November 18, 2005. Compass Group Diversified Holdings, LLC, a Delaware limited liability Company, which we refer to as the company, was also formed on November 18, 2005. The trust and the company were formed to acquire and manage a group of small and middle-market businesses headquartered in North America. The trust is the sole owner of 100% of the trust interests, as defined in our LLC Agreement, of the company. Pursuant to that LLC Agreement, the trust owns an identical number of trust interests in the company as exist for the number of outstanding shares of the trust. Accordingly, our shareholders are treated as beneficial owners of trust interests in the company and, as such, are subject to tax under partnership income tax provisions.

The company is an operating entity with a board of directors whose corporate governance responsibilities are similar to that of a Delaware corporation. The company's board of directors oversees the management of the company and our businesses and the performance of Compass Group Management LLC, which we refer to as our manager or CGM. Our manager is the sole owner of our allocation interests, as defined in our LLC Agreement.

Overview

We acquire controlling interests in businesses that we believe operate in industries with long-term macroeconomic growth opportunities, and that have positive and stable cash flows, face minimal threats of technological or competitive obsolescence and have strong management teams largely in place.

Our structure provides public investors with an opportunity to participate in the ownership and growth of companies which have historically been owned by private equity firms, wealthy individuals or families. Through the acquisition of a diversified group of businesses with these characteristics, we also offer investors an opportunity to diversify their own portfolio risk while participating in the ongoing cash flows of those businesses through the receipt of distributions.

Our disciplined approach to our target market provides opportunities to methodically purchase attractive businesses at values that are accretive to our shareholders. For sellers of businesses, our unique structure allows us to acquire businesses efficiently with little or no financing contingencies and, following acquisition, to provide our businesses with substantial access to growth capital.

We believe that private company operators and corporate parents looking to sell their businesses may consider us an attractive purchaser because of our ability to:

- provide ongoing strategic and financial support for their businesses;

- maintain a long-term outlook as to the ownership of those businesses where such an outlook is required for maximization of our shareholders' return on investment; and

- consummate transactions efficiently without being dependent on third-party financing on a transaction-by-transaction basis.

In particular, we believe that our outlook on length of ownership may alleviate the concern that many private company operators and parent companies may have with regard to their businesses going through multiple sale processes in a short period of time. We also believe this outlook both reduces the risk that businesses may be sold at unfavorable points in the overall market cycle and enhances our ability to develop a comprehensive strategy to grow the earnings and cash flows of our businesses, which we expect will better enable us to meet our long-term objective of paying

distributions to our shareholders and increasing shareholder value. Finally, we have found that our ability to acquire businesses without the cumbersome delays and conditions typical of third party transactional financing can be very appealing to sellers of businesses who are interested in confidentiality and certainty to close.

We believe that our management team's strong relationships with industry executives, accountants, attorneys, business brokers, commercial and investment bankers, and other potential sources of acquisition opportunities offer us substantial opportunities to assess small to middle market businesses that may be available for acquisition. In addition, the flexibility, creativity, experience and expertise of our management team in structuring transactions allows us to consider non-traditional and complex transactions tailored to fit a specific acquisition target.

S-2

In terms of the businesses in which we have a controlling interest as of March 31, 2008, we believe that these businesses have strong management teams, operate in strong markets with defensible market niches and maintain long standing customer relationships. We believe that the strength of this model, which provides for significant industry, customer and geographic diversity, will become even more apparent in the current challenging economic environment.

The following is a brief summary of the businesses in which we own a controlling interest at March 31, 2009.

Advanced Circuits

Compass AC Holdings, Inc., which we refer to as Advanced Circuits or ACI, with operations headquartered in Aurora, Colorado, is a provider of prototype and quick-turn printed circuit boards, or PCBs, throughout the United States. PCBs are a vital component of virtually all electronic products. The prototype and quick-turn portions of the PCB industry are characterized by customers requiring high levels of responsiveness, technical support and timely delivery. We made loans to and purchased a controlling interest in Advanced Circuits from Compass Group Investments, Inc., which we refer to as CGI, on May 16, 2006, for approximately \$81.0 million, representing approximately 70.2% of the outstanding stock of Advanced Circuits on a primary and fully diluted basis.

American Furniture

AFM Holdings Corporation, which we refer to as American Furniture or AFM, with operations headquartered in Ecru, Mississippi, is a leader in the manufacturing of low-cost upholstered stationary and motion furniture, including sofas, loveseats, sectionals, recliners and complementary products to the promotional furniture market. We made loans to and purchased a controlling interest in AFM on August 31, 2007 for approximately \$97.0 million, representing approximately 93.9% of AFM's outstanding stock on a primary basis and 84.5% on a fully diluted basis.

Anodyne

Anodyne Medical Device, Inc., which we refer to as Anodyne, with operations headquartered in Coral Springs, Florida, is a leading manufacturer of medical support surfaces and patient positioning devices used primarily for the prevention and treatment of pressure wounds experienced by patients with limited or no mobility. Anodyne is one of the nation's leading designers and manufacturers of specialty support surfaces and is able to manufacture products in multiple locations to better serve a national customer base. We made loans to and purchased a controlling interest in Anodyne from CGI on August 1, 2006 for approximately \$31.0 million, representing approximately 47.3% of the outstanding capital stock, on a fully-diluted basis, which represents approximately 69.8% of the voting power of all Anodyne stock on a fully diluted basis.

In August 2008, we increased our ownership percentage in Anodyne to approximately 67.0% on a primary basis and 57% on a fully diluted basis as a result of (i) exchanging a promissory note due from the former CEO, totaling \$6.9 million, for shares of common stock of Anodyne then held by such CEO and (ii) exchanging term debt due from Anodyne, totaling \$1.5 million, for shares of common and convertible preferred stock of Anodyne.

Staffmark

CBS Personnel Holdings, Inc., which is now known as Staffmark and which we refer to as Staffmark, headquartered in Cincinnati, Ohio, is a provider of temporary staffing services in the United States. In order to provide its more than 6,500 clients with tailored staffing services to fulfill their human resources needs, Staffmark also offers employee leasing services, permanent staffing and temporary-to-permanent placement services. We made loans to and purchased a controlling interest in Staffmark from CGI, on May 16, 2006, for approximately \$128.0 million.

On January 21, 2008, CBS Personnel Holdings, Inc. acquired Staffmark Investment LLC for approximately \$133.8 million, including fees and transaction costs. Like CBS Personnel Holdings, Inc., Staffmark Investment LLC is one of the leading providers of commercial staffing services in the United States, providing staffing services in over 30 states. CBS Personnel Holdings, Inc. repaid approximately \$80.0 million in Staffmark Investment LLC

S-3

indebtedness and issued \$47.9 million in CBS Personnel Holdings, Inc. common stock for all the equity interests in Staffmark Investment LLC.

In April 2009, we amended the Staffmark intercompany credit agreement with us which, among other things, recapitalized a portion of Staffmark's long-term debt by exchanging \$35.0 million of debt for Staffmark common stock. A minority shareholder participated in this exchange. As a result of this transaction, we currently own 75.7% of the outstanding stock of Staffmark on a primary basis and 73.3% on a fully diluted basis.

Fox

Fox Factory Holding Corp., which we refer to as Fox, with operations headquartered in Watsonville, California, is a designer, manufacturer and marketer of high end suspension products for mountain bikes, all-terrain vehicles, snowmobiles and other off-road vehicles. Fox acts both as a tier one supplier to leading action sport original equipment manufacturers and provides after-market products to retailers and distributors. Fox's products are recognized as the industry's performance leaders by retailers and end-users alike. We made loans to and purchased a controlling interest in Fox, on January 4, 2008, for approximately \$80.4 million, representing approximately 75.5% of the outstanding common stock on a primary basis and 68.0% on a fully diluted basis.

HALO

Halo Lee Wayne LLC, which we refer to as HALO, operating under the brand names of HALO and Lee Wayne, with operations headquartered in Sterling, Illinois, serves as a one-stop shop for over 35,000 customers providing design, sourcing, management and fulfillment services across all categories of its customer promotional product needs in effectively communicating a logo or marketing message to a target audience. HALO has established itself as a leader in the promotional products and marketing industry through its focus on servicing its group of over 900 account executives. We made loans to and purchased a controlling interest in HALO on February 28, 2007, for approximately \$62.0 million, representing approximately 88.3% of the outstanding equity on a primary basis and 73.6% on a fully diluted basis.

Current Organizational Structure

- (1) CGI Diversified Holdings, LP owns 24.4% of the Trust shares through its affiliates, and is our largest share holder. Mr. Massoud is not a director, officer or member of CGI Diversified Holdings, LP or any of its affiliates.
- (2) Owned by members of our Manager, including Mr. Massoud as managing member.
- (3) Mr. Massoud is the managing member.
- (4) The Allocation Interests, which carry the right to receive a profit allocation, represent less than a 0.1% equity interest in the Company.
- (5) Mr. Day is a non-managing member.

S-5

SUMMARY FINANCIAL DATA

The following table sets forth selected historical and other data of the Company and should be read in conjunction with the more detailed consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008, as amended, as supplemented by our Current Report on Form 8-K filed with the SEC on May 19, 2009.

Selected financial data below includes the results of operations, cash flow and balance sheet data of the Company for the years ended December 31, 2008, 2007, 2006 and 2005. We were incorporated on November 18, 2005 (inception). Financial data included for the year ended December 31, 2005, includes the minimal activity experienced from inception to December 31, 2005. We completed our initial public offering, which we refer to as our IPO, on May 16, 2006 and used the proceeds of the IPO and separate private placement transactions that closed in conjunction with our IPO, and from our third party credit facility, to purchase controlling interests in our initial businesses.

The operating results for Crosman Acquisition Corporation are reflected as discontinued operations in 2006 and as such are not included in the operating data below. The operating results for Aeroglide Holdings, Inc. are reflected as discontinued operations in 2008 and 2007 and as such are not included in the operating data below. The operating results for Silvue Technologies Group, Inc. are reflected as discontinued operations in 2008, 2007 and 2006 and as such are not included in the operating data below. Financial data included below only includes activity in our current operating subsidiaries from their respective dates of acquisition. Net income and gains on the sales of Crosman, Aeroglide and Silvue are reflected below in income and gain from discontinued operations.

	2008	Year Ended December 31,		2005
		2007	2006	
		(in thousands)		
Statements of Operations Data:				
Net sales	\$ 1,538,473	\$ 841,791	\$ 395,173	\$
Cost of sales	1,196,206	636,008	307,014	
Gross profit	342,267	205,783	88,159	
Operating expenses:				
Staffing	102,438	56,207	34,345	
Selling, general and administrative	165,768	94,426	31,605	1
Supplemental put expense	6,382	7,400	22,456	
Management fees	15,205	10,120	4,158	
Amortization expense	24,605	12,679	5,814	
Operating income (loss)	27,869	24,951	(10,219)	(1)
Income (loss) from continuing operations	3,817	10,051	(27,973)	(1)
Income and gain from discontinued operations ⁽¹⁾	77,970	41,314	9,831	
Net income (loss)	81,787	51,365	(18,142)	(1)
Net income attributable to noncontrolling interest	3,493	10,997	1,107	
Net income (loss) attributable to Holdings ^{(1),(2)}	\$ 78,294	\$ 40,368	\$ (19,249)	\$ (1)

Edgar Filing: Compass Diversified Holdings - Form 424B3

Cash Flow Data:

Cash provided by operating activities	\$	40,549	\$	41,772	\$	20,563	\$
Cash used in investing activities		(22,542)		(114,158)		(362,286)	
Cash (used in) provided by financing activities		(39,812)		184,882		351,073	100
Net (decrease) increase in cash and cash equivalents		(21,885)		112,352		9,610	100

Basic and fully diluted income (loss) per share

attributable to Holdings:

Continuing operations	\$	0.01	\$	(0.04)	\$	(2.29)	\$
Discontinued operations		2.47		1.50		0.77	

Basic and fully diluted income (loss) per share attributable to Holdings

\$	2.48	\$	1.46	\$	(1.52)	\$
----	------	----	------	----	--------	----

- (1) Includes gains on the sales of Aeroglide and Silvue in 2008 of \$34.0 million and \$39.4 million, respectively, and Crosman in 2007 of \$36.0 million.

- (2) Includes a charge to net income of \$10.0 million for distributions made at the subsidiary (ACI) level in excess of cumulative earnings in 2007.

	2008	2007	2006	2005
	(in thousands)			
Balance Sheet Data:				
Current assets	\$ 335,201	\$ 299,241	\$ 135,121	\$ 3,408
Total assets	984,336	828,002	496,382	3,408
Current liabilities	139,370	106,613	155,534	3,309
Long-term debt	151,000	148,000		
Total liabilities	440,458	373,285	221,934	3,309
Noncontrolling interests	79,431	21,867	17,734	100
Shareholders' equity (deficit) attributable to Holdings	464,447	432,850	255,711	(1)

The table below details cash receipts and payments that are not reflected on our income statement in order to provide an additional measure of management's estimate of cash flow available for distribution and reinvestment, which we refer to as CAD. CAD is a non-GAAP measure that we believe provides additional information to our shareholders in order to enable them to evaluate our ability to make anticipated quarterly distributions. It is not necessarily comparable with similar measures provided by other entities. We believe that our future CAD, together with our cash balances and access to cash via our revolving credit facility, will be sufficient to meet our anticipated distributions over the next twelve months. For a discussion of certain risks related to, and restrictions on, our ability to pay such distributions, see the section entitled "Risk Factors." We may not have sufficient cash flows from our businesses and other capital resources, including borrowings, to maintain our current level of distributions, increase our distributions or pay distributions at all due to poor performance of our business or other factors and the section entitled "Dividend and Distribution Policy." The table below reconciles CAD to net income and to cash flow provided by operating activities, which we consider to be the most directly comparable financial measure calculated and presented in accordance with GAAP.

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in thousands)	
Net income attributable to Holdings	\$ 78,294	\$ 40,368
Adjustment to reconcile net income to cash provided by operating activities		
Depreciation and amortization	35,021	24,107
Supplemental put expense	6,382	7,400
Noncontrolling shareholders' notes and other	2,827	1,080
Noncontrolling interest	4,042	11,940
Deferred taxes	(8,911)	(1,295)
Gain on sales of businesses	(73,363)	(35,834)
Amortization of debt issuance cost	1,969	1,224
Other	381	86
Changes in operating assets and liabilities	(6,093)	(7,304)
Net cash provided by operating activities	40,549	41,772

Edgar Filing: Compass Diversified Holdings - Form 424B3

Plus:

Unused fee on Revolving Credit Facility⁽¹⁾

3,139

2,665

Staffmark integration and restructuring

8