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This brochure provides information about the qualifications and business practices of Gates Capital Management, Inc. ("Gates Capital"). If you have any questions about the content of this brochure, please contact the Chief Compliance Officer at (212) 626-0251. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Gates Capital is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Gates Capital is a Registered Investment Advisor. This registration does not imply a certain level of skill or training.

## Item 2. Material Changes

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Gates Capital had no material changes during this reporting period.

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## Item 4. Advisory Business

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Gates Capital was founded in 1996 under the laws of the State of Delaware. Gates Capital is owned exclusively by its founder, Jeffrey L. Gates.

Gates Capital sponsors and serves as investment manager to domestic limited partnerships and an offshore investment company (the “Funds”).

As the investment manager of the Funds, Gates Capital has overall responsibility to manage and control the business affairs of the Funds, including the exclusive authority to oversee and to establish policies regarding the management, conduct and operation of the Fund’s business. Gates Capital manages the Funds in accordance with the terms of the offering memorandum and other governing documents applicable to the Fund.

Currently, the Company provides these services to the following Funds:

- ECF Value Fund, L.P.
- ECF Value Fund II, L.P.
- ECF Value Fund International, Ltd.
- ECF Value Fund International Master L.P.

For information about the investment strategies of the Funds, see discussion under “*Methods of Analysis, Investment Strategies and Risks of Loss.*” Also, details regarding the investment objective for each Fund can be found in the offering memoranda and other governing documents.

Shares or limited partnership interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”); nor are the Funds registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests or shares in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements, either in private transactions within the United States or in offshore transactions.

As of December 31, 2013 the Company managed \$3,476,896,675 on a discretionary basis.

## Item 5. Fees and Compensation

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Gates Capital receives a management fee for its investment management services for ECF Value Fund, L.P. and ECF Value Fund II, L.P. These Funds are charged one percent 1.0%, annualized, management fee based on the net assets value on the last day of each month. The management fee is deducted from the Fund on a monthly basis and paid to Gates Capital.

Gates Capital receives a management fee for its investment management services for ECF Value Fund International Master, LP. This Fund is charged a 1.50%, annualized, management fee based on the net assets value on the last day of each month. Investors’ management fees are assessed at the level of the master and not the feeder. The management fee is deducted from the Fund on a monthly basis and paid to Gates Capital.

The Funds bear other fees and expenses including but not limited to: administration, accounting and tax, audit, broker, legal, regulatory compliance and trading. Investors in the Funds are requested to refer to the applicable Funds' offering documents for complete information on other fees and expenses.

## **Item 6. Performance-Based Fees and Side-By-Side Management**

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In addition to the annual fees for portfolio management, performance-based compensation ("performance fee") is allocated and/or paid to the General Partner of ECF Value Fund, L.P., the ECF Value Fund II, L.P., and the ECF Value Fund International Master, L.P.

Each of the Funds managed by Gates Capital are charged performance fees, Gates Capital – in its role as manager – does not have an incentive to favor accounts paying performance based fees over accounts that do not. The fact that Gates Capital's affiliated General Partners are compensated based on the trading profits may create an incentive for Gates Capital to make investments on behalf of its Clients that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance based fees received by the General Partners, and/or their affiliates, are based primarily on realized and unrealized gains and losses. As a result, the performance based fee earned could be based on unrealized gains that clients may never realize.

Investors in the Funds are requested to refer to the applicable Funds' offering documents for complete information on the services offered, and corresponding fees charged, by Gates Capital and its affiliates.

## **Item 7. Types of Clients**

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Gates Capital provides advice to pooled investment vehicles. Generally, an investor is required to open an account with a minimum of \$1,000,000. The minimum investment may be modified by the Fund's general partner in its sole discretion. There is currently no minimum and no maximum to the aggregate size of the assets in the Fund.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

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Gates Capital makes Fund investments based on cash flow generation, focusing on event-driven equities and debt. Event-driven securities include equities and debt created through spin-offs and financial restructurings. Debt investments tend to be larger issues that are more senior in the capital structure with low equity risk. The Fund seeks to buy securities which trade at a significant discount to their intrinsic value and to short securities that trade well above their intrinsic value. Importantly, the Fund invests in situations where a reason for a valuation discrepancy can be discerned and is deemed temporary. The investment policy and approach of each Fund is described in detail in each Fund's offering documents, copies of which will be delivered to prospective investors of the Fund. Equity interests in the Funds will be offered solely to a limited number of qualified institutional and individual investors.

Gates Capital utilizes risk management tools to preserve assets in volatile markets. The risk management tools employed include liquidity requirements, limits on leverage and portfolio concentration, and use of options to protect positions.

Investing in any securities involves risk of loss that investors should be prepared to bear. A description of the material risks that relate to the investment strategy are described in this section, but the following is not intended to be all encompassing. The Funds' offering memorandums provide a summary of additional risks investors face when investing in the Funds. Investors in the Funds should review the offering memorandums to fully understand the additional risks.

Market conditions – the prices of, and the income generated by, the securities owned by Clients may decline due to market conditions and other factors, including those directly involving the issuers of securities held by Clients.

Security selection - the identification of securities representing high quality businesses and management teams is a difficult task, and there are no assurances that such opportunities will be successfully recognized over the long term. While such investments offer the opportunities for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses.

Limited Operating History; Reliance on Key Personnel - Although each of the firm's principals has substantial investment experience, past performance is not indicative of future results and no assurance can be given that investment objectives will be achieved or that Clients will receive a return of any of their investment. Gates Capital expects to rely heavily on the firm's principals' experience, and should any of them become incapacitated or in some way cease to participate during this period, performance could be adversely affected.

General Economic and Market Conditions – General economic or market conditions may adversely affect the investments made by Clients. In addition, a downturn or contraction in the economy or in the capital markets, or in certain industries or geographic regions thereof, may restrict the availability of suitable investment opportunities for the Clients and/or the opportunity to liquidate any such investments, each of which could prevent Clients from meeting its investment objectives.

Leverage - The Clients will be exposed to risks associated with the use of leverage, such as the risk that leverage could have a negative effect on returns and the risks of default and liquidation. In addition to use of leverage, certain entities in which Clients directly or indirectly invest may borrow money or use other financial techniques that would have the economic effect of using leverage.

See Fund's offering document for a summary of more specific risk factors.

## Item 9. Disciplinary Information

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There have been no legal or disciplinary events to the Fund's advisory business and/or the integrity of its management.

## Item 10. Other Financial Industry Activities and Affiliations

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None of Gates Capital's principals or employees has employment or an affiliation with any other financial services entity other than the investment entities, and their affiliated general partners, identified above.

## Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

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Gates Capital's principals and employees may invest in the Funds and therefore may have an indirect financial interest in the underlying components of the Funds. Gates Capital has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. Gates Capital's Code of Ethics describes the firm's fiduciary duties and responsibilities to Clients, and sets forth Gates Capital's practice of supervising the personal securities transactions of supervised persons with access to Client information. Individuals associated with Gates Capital are not allowed to purchase individual stocks for their personal account, but may buy or sell index securities for their personal accounts identical to or different than those recommended to Clients. It is the expressed policy of Gates Capital that no person employed by Gates Capital shall prefer his or her own interest to that of an advisory Client or make personal investment decisions based on the investment decisions of advisory Clients.

To supervise compliance with its Code of Ethics, Gates Capital requires that anyone associated with this advisory practice with access to advisory recommendations provide annual securities holdings reports and monthly transaction reports to the firm's Chief Compliance Officer. Gates Capital also prohibits such access persons from investing in any IPO's or private placements (limited offerings).

Gates Capital requires that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices. Gates Capital's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to discipline.

Gates Capital will provide a complete copy of its Code of Ethics to any Fund investor upon request to the Chief Compliance Officer.

## Item 12. Brokerage Practices

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As investment adviser to the Funds, Gates Capital is granted the discretionary authority in the relevant organizational documents and/or investment management agreements to determine which securities and the amounts of securities that are bought or sold, as well as the broker dealer to be used and the commission rates to be paid.

UBS Securities, LLC ("Prime Broker") is the sole prime broker for the Funds. The Prime Broker has certain administrative functionalities including the issuance of broker account statements and record keeping on all custody transactions. Gates Capital utilizes a number of broker-dealers, in

addition to the Prime Broker, to execute transactions (trades) for the Funds. Broker-dealers are selected based upon the amount of commission, quality of execution, expertise in particular markets, the reputation, experience and financial stability of the broker-dealer involved, quality of service, familiarity both with investment practices and the techniques employed by the Client, research and analytic services, and clearing and settlement capabilities. At all times, brokers-dealers are subjected to principles of best execution.

In addition to the foregoing principles of broker-dealer selection, subject to the requirement to obtain best execution of brokerage transactions, Gates Capital may allocate a portion of Gates Capital's brokerage business to brokers on the basis of certain considerations, including the investment research provided by such firms, securities allocation, the availability of margin or other leverage, familiarity with the investment techniques employed by Gates Capital, block positioning, other special execution capabilities or other services provided to Gates Capital.

Gates Capital may cause its Clients to pay a broker-dealer that provides brokerage and research services to Gates Capital an amount of commission in excess of the commissions which another broker-dealer would have charged for executing a transaction. Although it is not possible to assign an exact dollar value to these services, they may, if and to the extent used, tend to reduce the expenses of Gates Capital. The fees paid to Gates Capital are not reduced because it receives such services. Research and execution-related services furnished by brokers and dealers with whom Gates Capital effects transactions may be beneficial to certain of the accounts advised by Gates Capital. It is recognized that a particular account may be charged a commission paid to a firm who supplied research services not utilized by such account. In addition, when directed by Gates Capital, the Prime Broker may allocate commissions originally collected by the Prime Broker to other firms who have provided research to Gates Capital. However, Gates Capital expects that each account will be benefited overall by such practice because each is receiving the benefit of research services and the execution of such transactions based upon the recognition of the value to such research services. On a quarterly basis, Gates Capital assesses its commission policies, rates and allocations. This review considers the contributions and value of research services received from broker-dealers and other firms.

Brokers or dealers that Gates Capital selects to execute transactions may from time to time refer investors to Gates Capital. Gates Capital does not pay any additional fees for these referrals.

Gates Capital may aggregate purchase and sales orders of securities, if in Gates Capital's reasonable judgment, such aggregation shall result in an overall economic benefit of the Funds account taking into consideration the advantageous purchase or selling price, brokerage commission and other expenses. Participation in the allocation is based on such considerations as investment objectives, restrictions, duration, availability of cash balances, the amount of existing holding of similar securities, as well as other factors. Allocations are made pro rata among the participating Client accounts. Subsequent reallocations may be made in unusual circumstances due to recognition of specific account restrictions.

Gates Capital has a formal arrangement with its Prime Broker to use credits received from the reduction of its commission expense to pay for research, research-related products and other services obtained from broker-dealers. Any payment with the commission credits for research



related products or services utilized for the benefit of Gates Capital and the funds will be made within the scope of Section 28(e) of the Securities and Exchange Act of 1934.

### Item 13. Review of Accounts

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Positions held by the Funds are continuously monitored and reviewed by the investment advisory personnel of Gates Capital. Accounts are reviewed in the context of the Fund's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the Fund's individual circumstances, or the market, political or economic environment.

Investors are provided a monthly capital statement by the Fund's administrator. In addition, investors are provided with audited financial statements and any other information necessary to enable each limited partner to prepare its income tax returns. Gates Capital may also prepare and deliver such investors additional information Gates Capital deems pertinent or any information upon request.

### Item 14. Client Referrals and Other Compensation

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Gates Capital does not have any arrangements in place to compensate anyone for client referrals.

### Item 15. Custody

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All Client assets are held in custody by unaffiliated broker/dealers or banks, however a registered investment adviser who, directly or through an affiliate, acts as the general partner or managing member to a limited partnership or other comparable pooled investment vehicle is considered to have custody over client assets. Rule 206(4)-2 under the Investment Advisers Act of 1940 imposes a number of requirements on an SEC-registered investment adviser that is deemed to have custody of its clients' funds and securities.

To comply with Rule 206(4)-2 and to provide meaningful protection to investors, each Fund is subject to an annual financial statement audit by an independent public account registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles, and are distributed to each investor within 120 days of the Client Fund's fiscal year end.

### Item 16. Investment Discretion

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Gates Capital accepts discretionary authority to manage securities accounts on behalf of clients.

As investment adviser to the Funds, Gates Capital is granted the discretionary authority in the relevant organizational documents and/or investment management agreements to determine

which securities and the amounts of securities that are bought or sold, as well as the broker dealer to be used and the commission rates to be paid.

### Item 17. Voting Client Securities

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Gates Capital has a proxy policy which provides for the firm's proxy voting policy and practices and recognizes the firm's duty and responsibility for the voting of Client proxies in the best interests of our Clients.

Certain principals of Gates Capital have overall responsibility for the firm's proxy voting policy and practices. Gates Capital has retained Institutional Shareholder Services, a nationally recognized and independent proxy service firm, to provide research, recommendations and proxy voting services according to the proxy voting guidelines stipulated for Gates Capital's Clients' proxies.

Clients may obtain a copy of Gates Capital's proxy voting policies and procedures by submitting a request to the Chief Compliance Officer.

### Item 18. Financial Information

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Gates Capital has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage the Funds.