

CCA ITEMS OF INTEREST

September 2011

We are in the business of sharing information and knowledge. We hope that you will find a few items of value in this brief missive. Right click your mouse to open the underlying hyperlinks.

SELECTED METRICS								
	Index or Yield ¹	Net Change ¹			M&A Activity ⁴	YTD US\$B ⁵	Deals ⁵	YOY Change ⁵
		Last Qtr.	Qtr. Ave.	1 Yr. Ago				
S&P 500	1173.97	-10.58%	-6.82%	7.69%	Worldwide	\$1,837.6	25,261	31%
MSCI AC World Index	979.60	-11.72%	-7.17%	5.33%	US: Total	784.0	5,095	73%
3-month LIBOR ²	0.331%	+8BP	+7BP	+4BP	US: Cross-border	129.6	950	17%
10-year U.S. Treasury ³	2.63%	-81BP	-59BP	-48BP	US: Strategic	711.5	4,342	79%
Moody's Aaa bonds ³	4.33%	-55BP	-41BP	-12BP	US: Private equity	72.5	753	32%
Moody's Baa bonds ³	5.38%	-26BP	-23BP	-27BP	Europe	500.0	1,088	29%

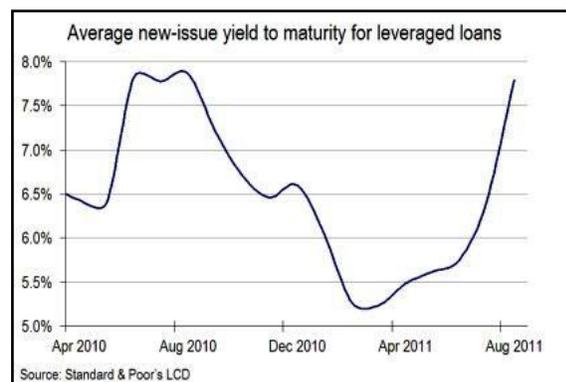
¹As of or for the period ended 9/2/11 ²FHLB of Des Moines ³Federal Reserve Board ⁴Thomson Reuters ⁵YTD 8/18/11

Mergers & Acquisitions

- Year-to-date worldwide and U.S. M&A activity are up sharply, as indicated by the data highlights above. However, U.S. and European M&A activity fell in June and July, compared to prior year levels, raising concerns that credit woes and fears of a double-dip recession may put a damper on M&A activity. Financing costs are already rising. S&P LCD reported that during July the average monthly interest rates on institutional leveraged loans reached an annual high of 491 basis points above applicable benchmarks. A reversal of the trend in falling rates on U.S. Treasuries and corporate bonds shown above is already evident in corporate lending.
- The most impressive gains in activity and total transaction value in the U.S. occurred in the largest deals, which constitute a minority of M&A activity, but the lion's share of transaction value and fees for professionals and bankers.
 - Deals valued above \$250 MM generally showed a \pm 50% increase over prior-year transaction volume and value, whereas those valued under \$25 MM registered declines in both metrics.
 - As is commonly the case, deals valued at over a billion dollars represented scarcely more than 5% of the number of transactions with disclosed values, but more than two thirds of the reported aggregate dollar value of M&A transactions.
- According to CapitalIQ, sectors comprising the greatest level of worldwide M&A activity over the past 90 days include financial firms (26%), information technology (18%), energy (11%), and healthcare (10%).

COMPOSITION OF U.S. M&A TRANSACTIONS DURING THE TWELVE MONTHS ENDED JULY 31, 2011						
Deal Size	Number of Deals			Deal Value (\$ Billion)		
	#	%	YOY	\$	%	YOY
			Change			Change
\$1 billion +	190	6.3%	50.8%	\$657.9	67.2%	59.0%
\$500 - \$999.9MM	167	5.6%	46.5%	118.3	12.1%	52.2%
\$250 - \$499.9 MM	269	9.0%	61.1%	92.4	9.4%	56.2%
\$100 - \$249.9 MM	393	13.1%	22.8%	62.7	6.4%	23.5%
\$50 - \$99.9MM	352	11.7%	17.3%	24.8	2.5%	18.6%
\$25 - \$49.9MM	378	12.6%	5.9%	13.4	1.4%	7.5%
\$10 - \$24.9MM	427	14.3%	-11.8%	7.0	0.7%	-10.9%
< \$10MM	820	27.4%	-28.4%	2.7	0.3%	-24.0%
	2,996	100.0%		\$979.2	100.0%	

Transactions with disclosed prices compiled by Mergerstat

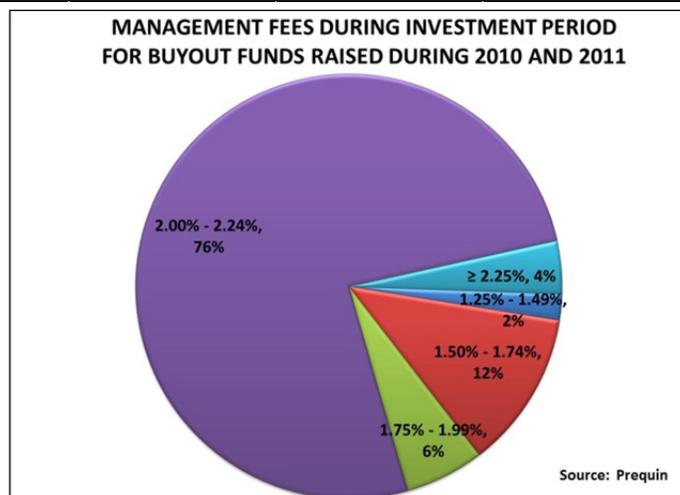


Private Equity

• Private equity continues to offer returns that compare favorably to returns available in the public equity markets. The first decade of this century has been a lost decade for U. S. equity market returns. Notwithstanding two good years during 2009 and 2010, the compounded annual total return of large-company stocks was 0.40%/year from 2000 through 2010, according to Morningstar.

• Market efficiency and slow growth in the public equity markets are among the justifications used by managers of private equity funds for management fees and carried interests that far exceed those charged by managers of public stock and bond portfolios. During the past two years Prequin reports that the median management fee during the investment period was 2% of fund commitments. If a fund is successful, the carried interest earned by the manager—commonly 20% of profits earned by the fund in excess of the fund’s hurdle rate—can far exceed fees charged based on committed capital. Successful managers can earn up to 20% of a fund’s profit, even though, according to Prequin data, the median commitment by fund managers during 2010/11 amounted to 2½% of the assets of the funds that they managed.

STATE STREET PRIVATE EQUITY INDEX AS OF MARCH 31, 2011			
Strategy	Number of Funds	Commitments (\$Billion US)	Since Inception IRR
Buyout	910	\$1,264.4	13.34%
Venture capital	813	261.8	10.07%
Mezzanine and distressed	238	221.7	12.67%
Total	1,961	1,748.0	12.74%
U.S.	1,588	1,317.3	12.76%
Europe	216	331.6	14.50%
Rest of the world	157	99.1	7.45%



U.S. Economic Growth (?)

• A factor contributing to the lackluster performance of the stock market has been the declining rate of U.S. economic growth.

- A logarithmic trendline analysis dating back to 1950 reveals that the growth rate in real GDP is declining.
- The geometric mean of the compounded annual growth rate of real GDP:
 - Exceeded 4% per year during the 1950s and 1960s;
 - Exceeded 3% per year during the last 3 decades of the 20th century; and
 - Amounted to just 1.56% per year between 2000 and 2010.



• From 1950 through 1999 each decade had at least 4 years with real GDP growth in excess of 4%. We’ve only had a single year—2000—during this century in which real GDP growth exceeded 4%.

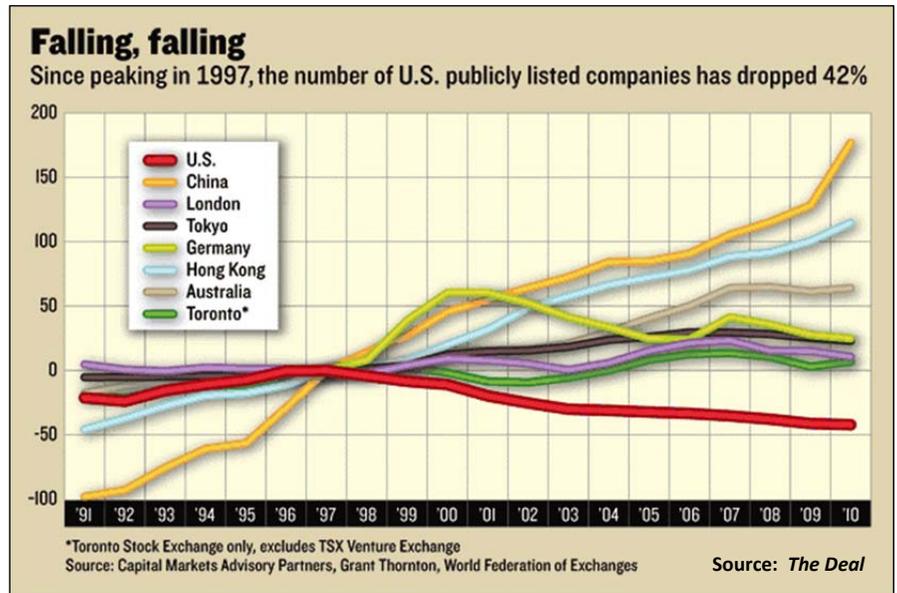
• The U.S. stock market is commonly regarded by economists to be one of the best leading indicators of U.S. economic performance. It also manifests positive and negative aspects of the economy.

• Investors should not despair that returns in the U.S. stock market will be constrained by the declining economic growth rate of the U.S. An investment in large-cap stocks provides a way of investing in the global economy. 47% of the earnings of the S&P 500 are derived from outside the U.S.

IPOs

- Notwithstanding the excitement generated by the LinkedIn IPO and the Facebook IPO anticipated for next year, it is not likely that the U.S. IPO market will reach the frenzied levels during the tech bubble of the late 1990s. Sarbanes Oxley and other costs have made it increasingly expensive for companies to go public in the U.S. Moreover, while our IPO market is shrinking, the IPO market in the rest of the world is expanding.

- A study of IPOs in 89 countries issued by the National Bureau of Economic Research¹ indicates that the U.S. share of worldwide IPOs has decreased from 27% in the 1990s to 12% during the 2000s, even though the U.S. share of global GDP increased slightly during that period. Because U.S. IPOs tend to be larger, its



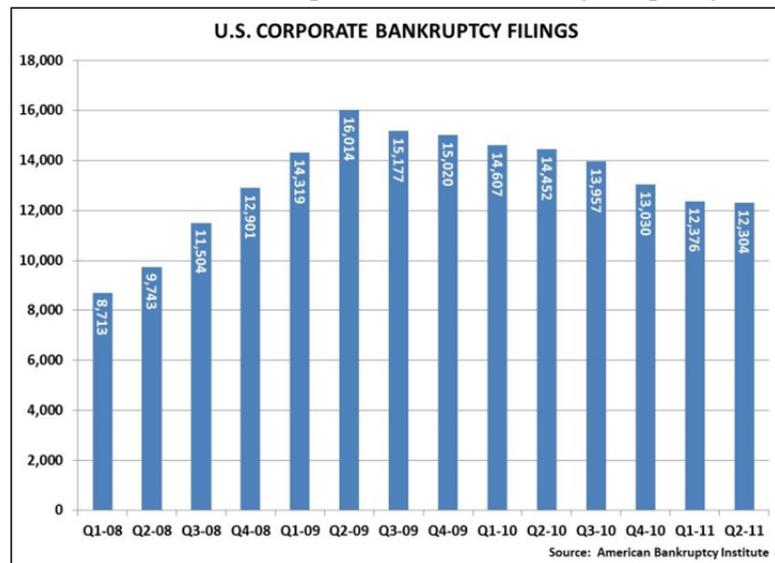
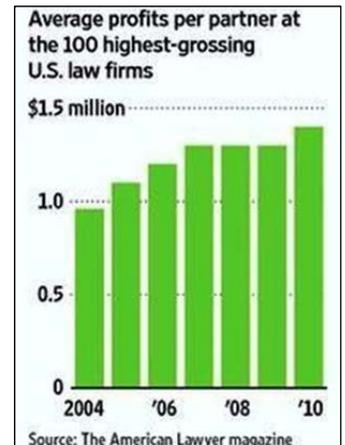
- share of IPO proceeds demonstrated a less severe drop from 30% during the 1990s to only 21% during the 2000s.

- Many smaller U.S. companies have elected to go private, “go dark,” or list their shares overseas where public company compliance costs are lower.
- It should come as no surprise that China and Hong Kong have become hottest markets for IPOs.

Law Firm Partner vs. Corporate Counsel Earnings

- Gone are the days when the highest and best use of a law school education came from becoming a partner in a large law firm. While there is no shame in average partner profits of approximately \$1.4MM at the nation’s largest law firms, compensation packages earned by the 100 highest-paid general counsel compare favorably with that of the attorneys that they engage. According to the August issue of *Corporate Counsel*:

- The median cash compensation of the 10 highest-paid general counsel during 2010 amounted \$4,285,000, while their median stock-based compensation amounted to an additional \$4,844,000.
- The median cash compensation of the 100 highest-paid general counsel during 2010



amounted to \$1,476,000, excluding stock-based compensation and other benefits which often exceed cash compensation. Their cash compensation alone exceeds the average partner profits at the 100 highest grossing law firms.

Corporate Bankruptcy Filings

With the recovery of the U.S. economy, however modest, and possibly, temporary, the rate of corporate bankruptcy filings has consistently declined since reaching a peak level during the second quarter of 2009, but has not yet fallen to pre-2008 levels.

The average duration of bankruptcies of large public companies that were reorganized in 2010 reached a 10-year low of 345 days (Lynn LoPucki).

¹ Craig Doidge, G. Andrew Karolyi, and Rene Stulz, “The U.S. Left Behind: The Rise of IPO Activity Around the World” (NBER Working Paper No. 16916, March 15, 2011)

Certification

- The founder of our firm is often regarded to be one of the most credentialed financial professionals in America, with 10 professional licenses (<http://charterredcapital.com/12336.html>), in addition to an undergraduate and two graduate degrees in business. In an era of increasing specialization there has been a proliferation of professional designations, as shown below.

A PARTIAL LIST OF FINANCIAL LICENSES			
PRIMARY DESIGNATIONS		INSURANCE PLANNING	
CFA	Chartered Financial Analyst	cfainstitute.org	BCI Board Certified in Insurance icfs.com
CFP	Certified Financial Planner	cfp-board.org	CAS Certified Annuity Specialist icfs.com
CPA	Certified Public Accountant	State Accountancy Boards	CLTCC Certified in Long-Term Care ltc-cltc.com
CLU	Chartered Life Underwriter	theamericancollege.edu	LUTCF Life Underwriter Training Council Fellow naifa.org
ChFC	Chartered Financial Consultant	theamericancollege.edu	
BUSINESS VALUATION		RETIREMENT PLANS (BUSINESSES)	
ABV	Accreditation in Business Valuation	aicpa.org	CEBS Certified Employee Benefits Specialist ifebp.org
ASA	ASA Business Valuation	asabv.org	CPC Certified Pension Consultant asppa.org
CBA	Certified Business Appraiser	go-iba.org	CRPS Chartered Retirement Plans Specialist cffp.edu
CDBV	Certification in Distressed Business Valuation	aira.org/abv	
CVA	Certified Valuation Analyst	nacva.com	RETIREMENT PLANS (INDIVIDUALS)
DIVORCE PLANNING		CISP Certified IRA Services Professional aba.com	
CDFA	Certified Divorce Financial Analyst	institutedfa.com	CRC Certified Retirement Counselor infre.org
CDP	Certified Divorce Planner	institutedfa.com	CRPC Chartered Retirement Planning Counselor cffp.edu
ESTATE PLANNING		CASL Chartered Advisor for Senior Living theamericancollege.edu	
AEP	Accredited Estate Planner	naepc.org	SENIOR LIVING
BCE	Board Certified in Estate Planning	icfs.com	CSS Certified Senior Specialist centerforseniorstudies.com
CEPP	Certified Estate Planner	nicep.org	ECS Elder Care Specialist acatcredentials.org
CEPP	Chartered Estate Planning Practitioner	cepp-epi.com	TAX PLANNING
CTEP	Chartered Trust and Estate Planner	financialanalyst.org	ABA Accredited Business Accountant acatcredentials.org
			CPA Certified Public Accountant State Accountancy Boards
			CTS Certified Tax Specialist icfs.com

Upcoming Seminars

- R. G. Quintero & Co. CFA Review:
 - Weekday, weekend, and intensive-review CFA examination prep courses for Levels I, II, and III
 - Midtown Manhattan and Stamford, Connecticut beginning July 2011 for the December 2011 CFA Exam, and January 2012 for the June 2012 CFA Exam
- Offered at various dates throughout the United States through Center for Professional Education, Inc., (800) 544-1114:
 - Business Combinations & Consolidations (emphasis on applying FASB 141R and 142)
 - Due Diligence: Steps to Securing a Good Deal
 - Fair Value Accounting: Impact of FAS 157 and Beyond
 - Fair Value Accounting: Valuation Techniques
 - Financial Restructuring & Bankruptcy
 - Mergers & Acquisitions: A Current Guide to Deal-Making
 - Stock-Based Compensation (FASB 123R)
- We also provide in-house training at leading financial institutions, CPA firms, and law firms
- Call us at (212) 327-0200 for further information or visit <http://www.rgquintero.com/5873.html> to see a list of our most frequent course offerings

Our Services

- Chartered Capital Advisers:
 - Valuations of businesses, intangible assets, goodwill, stock options, and other financial instruments
 - Transaction advisory services and fairness opinions
 - Litigation-support services
- R. G. Quintero & Co.:
 - Bankruptcy, insolvency & financial restructuring services
 - Forensic accounting
 - Litigation-support services
 - Financial training

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Postscript

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