

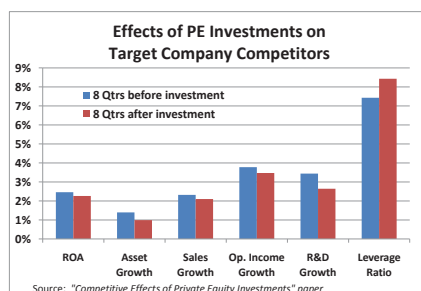
Competitors of P.E. Targets Lose Value: Study

BY JENNIFER ROSSA

Competitors of companies that receive private-equity investments show declines in their stock prices and operating performance, a study shows.

Its findings have implications for investors, "particularly in the assessment of the expected risk and return of companies in industries in which there is a high probability of new PE investments," according to authors **Hung-Chia Hsu, Adam V. Reed** and **Jorg Rocholl**. They present their findings at a meeting of the American Finance Association in Denver tomorrow.

The competitor companies show an average cumulative abnormal return — the difference between expected returns and actual returns — of negative 1.5 percent 20 days after the announcement or completion of private-equity investments. If the investments are withdrawn, the stock prices of competitors turn positive 10 days before the withdrawal. They remain positive for 20 days after the investments are withdrawn.



The authors analyzed the operating performance of competitors by looking at variables such as return on assets, sales growth and operating income growth eight quarters before and eight quarters after the private-equity investment.

They found that return on assets decreases to 2.26 percent after a private-equity investment in an industry from 2.46 percent before, sales growth declines by 1.6 percent in the years in which a large investment occurs in the same industry, and operating income

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M&A Announcements

TARGET NAME	ACQUIRER NAME	TOTAL VALUE (\$M)
Nepes Pte Ltd	NEPES Corp	4,197
Atheros Comm	QUALCOMM Inc	2,917
Multiple Targets	OMV AG	800
Kim Eng Holdings	Malayan Banking	796
Multiple Targets	Hutchison Whampoa	734
Int'l Dialysis	Fresenius Medical	647
Kim Eng Holdings	Malayan Banking	403
Harbison-Fischer	Dover Corp	403
Drake Circus	British Land Co PLC	372
Shangri-La Asia	Kerry Properties	284

Recent Completed Deals

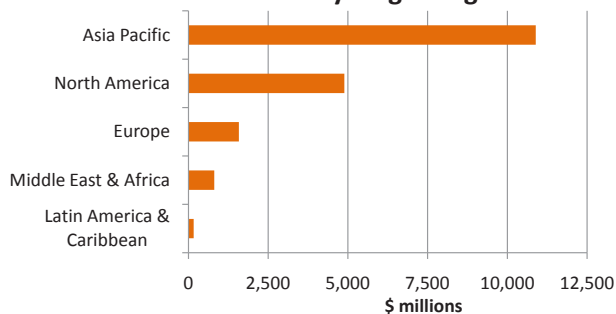
DATE	TARGET	ACQUIRER	TOTAL VALUE
Jan 6	Andean Resources	Goldcorp Inc	3,610
Jan 3	Neurovascular Div	Stryker Corp	1,400
Jan 5	Orascom Telecom	Qatar Telecom	1,200
Jan 3	Boston Gen Assets	Constellation	1,100
Jan 4	Moly-Cop & Alta	OneSteel	932
Jan 4	Property Info	TPG Capital	850
Jan 6	Art Technology	Oracle Corp	844
Jan 4	MAC Services	Oil States Int'l	697
Jan 3	Student Loan	Discover Financial	600

Weekly Data

Comparisons

SUMMARY	TOTAL	52-WEEK AVG.	YEAR TO DATE
Number of Announced Deals	368	477	368
Volume (\$)	19.5 billion	42.7 billion	19.5 billion
Avg Disclosed Deal Size (\$M)	117.6	168.8	117.6
Average Premium	18%	22%	18%

Global M&A Volume by Target Region



Source: Bloomberg. Data year-to-date through Jan. 6.

Deal Type

DEAL TYPE SUMMARY	DEAL COUNT	VOLUME (\$)	PERCENT
Cross Border	99	12.85 bn	65.77
Majority purchase	40	8.56 bn	43.83
Company Takeover	178	6.84 bn	35.02
Additional Stake Purchase	41	6.75 bn	34.57
Option Agreement	3	4.2 bn	21.5
Asset sale	92	2.23 bn	11.4
Mandatory Offer	2	801.02 mn	4.1
Private Equity	43	731.4 mn	3.74
Minority purchase	36	657.06 mn	3.36
Joint Venture	9	286.03 mn	1.46
Private Placement	4	258.73 mn	1.32
Tender Offer	2	110.59 mn	0.57

Top Regions

TARGET REGION	DEAL COUNT	VOLUME (\$)	PERCENT
Asia Pacific	102	11.39 bn	58
North America	194	5.19 bn	27
Europe	52	1.69 bn	9
Middle East & Africa	7	811.50 mn	4
Latin America & Caribbean	11	163.24 mn	1
Global	368	19.5 bn	100

COMPETITORS OF P.E. TARGETS...

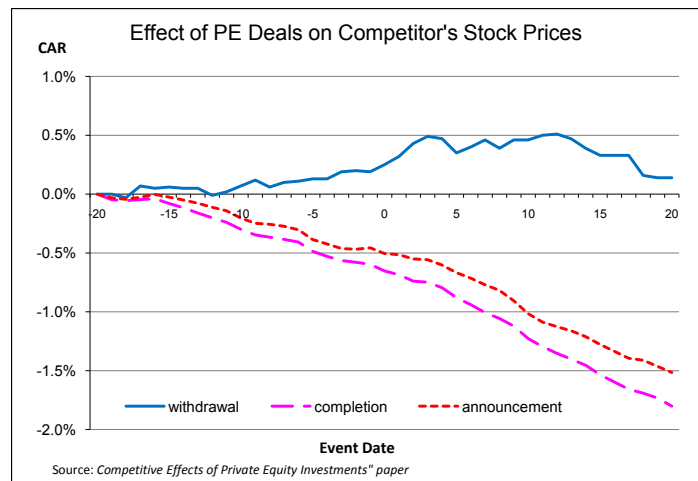
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growth declines by 2.3 percent.

"These results suggest that the financial flexibility of the competitors decreases," according to the study.

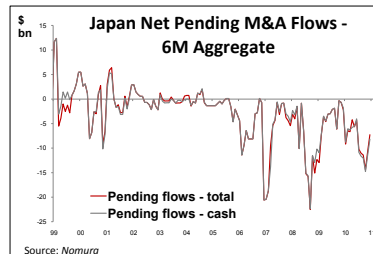
The authors attribute the reactions of competitors' stock prices to the advantages commonly attributed to private-equity firm backing.

"We find that competitors fare better when the private-equity investor in the target company has less industry specialization and thus expertise, if the competitors have a better system of corporate governance, more technological innovations, more aligned managerial incentives, and if they are more cost-efficient," according to the study.

**Little Evidence of Boost to Japanese M&A From Strong Yen**

A strong yen doesn't appear to be increasing Japanese M&A outflows, according to Jens Nordvig, managing director of foreign exchange strategy at Nomura Securities International. In a Jan. 6 research piece, Nordvig wrote that there have been "essentially no major new deals announced in recent months."

A strong currency usually gives domestic companies an edge, enabling them to compete against foreign competitors for deals more effectively. Nordvig said the trend may be because risk appetite in Japan remains low. "We can see it in other outflows as well, which have been subdued. For example, Japa-



nese investors are very bond (as opposed to equity) focused at the moment, reflecting a reluctance to take on risk," Nordvig wrote in an email to Bloomberg.

He doesn't expect any changes to the picture in the near future.

"We estimate that the pipeline of

net Japanese M&A outflows over a six-month window amounts to less than 0.5 percent of GDP and we cannot see any clear evidence that momentum is building," Nordvig wrote.

— Jennifer Rossa

LBO Funds May Recover in 2011, Preqin Says

Private-equity firms may gather more money from investors this year after fundraising dropped to the lowest in six years in 2010, research firm **Preqin Ltd.** said.

Firms will raise more than \$300 billion this year compared with \$225 billion in 2010, the firm said. Fundraising fell to the lowest since 2004 last year as investors became reluctant to commit money to new funds before reaping profits from previous investments, according to Preqin.

The pace of private-equity investments dropped to as little as \$93.2 billion in 2009 before nearly trebling to \$269 billion in 2010,

according to data compiled by Bloomberg. Investors may commit more this year as firms sell assets they were unable to offload during the crisis, Preqin said.

"Conditions in 2011 appear far more encouraging," Preqin said in the statement. "Market conditions are improving, and with deals and exits occurring at the highest levels for some time, investors will have to increase investments to maintain allocations" to the asset class. The average amount of time needed to complete a fund extended to 20.4 months last year from 15.5 in 2009.

—By Anne-Sylvaine Chassany

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THE WIRE BLOOMBERG NEWS

■ **Apax Partners LLP** dropped a 6.4 billion-euro (\$8.3 billion) bid for **ISS A/S**, the biggest by a European private equity firm since the credit crisis, after the owners said the offer was too low, two people with knowledge of the talks told Bloomberg News. **Goldman Sachs Capital Partners** and **EQT Partners AB**, ISS's owners, told Apax this month they wouldn't pursue talks after the value of ISS's publicly traded competitors jumped making an initial public offering more attractive, said the people. ISS isn't holding talks with other bidders and is now preparing for an IPO, one of the people said.

■ **KKR & Co.** will acquire minority stakes in Indian companies, Co-Chairman **Henry Kravis** said on his visit to the country. He trip included meetings with 31 company executives, the Times of India reported.

■ The founders of **Patni Computer Systems Ltd.** and private-equity firm **General Atlantic LLC** are set to sign a deal Monday to sell a controlling stake in the company for a little less than \$1 billion to a consortium of **Igate Corp.** and **Apax Partners LLP**, Dow Jones reported today, citing unnamed sources.

■ **Morgan Joseph LLC** combined

with merchant bank **Tri-Artisan Capital Partners** to form **Morgan Joseph TriArtisan Group Inc.** The broker-dealer firms will operate as wholly owned subsidiaries. **John F. Sorte**, chief executive officer of Morgan Joseph, will be executive chairman of the combined firm. **Mary Lou Malanoski** will be vice chairwoman and head of investment banking. **Gerald H. Cromack** and **Rohit Manocha**, co-managing principals of Tri-Artisan, will be co-presidents.

■ **Mark Mobius**, who oversees \$34 billion for **Templeton Asset Management**, wants the Romanian government to sell shares in state companies after completing this month's listing of the **Romania Property Fund**. The restitution fund, or Fondul Proprietatea SA, will be sold directly to investors on Jan. 25 to increase the attractiveness of the Bucharest Stock Exchange. Further sales of state assets on the bourse would make it more "visible," Mobius said in an e-mail.

ON THE MOVE

■ **Blake Grossman**, the former chief executive officer of **Barclays Global Investors**, plans to depart one year after **BlackRock Inc.** completed the acquisition of BGI, to take time off

before resuming a career in the financial industry. Grossman will leave to "explore new opportunities," after helping with the integration of BGI into BlackRock over the past year, CEO **Laurence D. Fink** said today in a memo to employees, a copy of which was obtained by Bloomberg News. Grossman, who will remain with the company an advisory role through the end of the first quarter, may partner with BlackRock in the future, according to the memo.

■ **Robert Klap** joined **Platinum Equity** as a principal based in London, where he will assist the firm's investor relations, capital raising and deal origination programs. Klap previously worked at **UBS** overseeing private-equity fund investments in the bank's wealth management group. He also was a fund manager at Shell Asset Management Co. and Mn Services, which invested in Platinum's private-equity funds.

■ **Evan M. Tomaskovic** and **Christopher K. Wu** were promoted to partner at **Carl Marks Advisory Group LLC's** investment banking group.

■ **John D. Cochran** was named managing director of **Lovell Minnick Partners LLC**. Prior to joining the private-equity firm in 2008, Cochran

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Snapshot

	(\$MILLIONS)			
	Q1	Q2	Q3	Q4
Financial	\$106,895	\$74,788	\$94,380	\$135,122
Consumer, Non-cyclical	\$99,038	\$68,415	\$101,733	\$107,940
Energy	\$69,478	\$67,353	\$117,530	\$102,981
Communications	\$66,847	\$72,335	\$55,455	\$62,493
Industrial	\$37,012	\$31,312	\$59,708	\$75,497
Consumer, Cyclical	\$34,798	\$32,136	\$53,512	\$60,278
Basic Materials	\$38,954	\$39,687	\$39,296	\$53,592
Utilities	\$24,700	\$21,836	\$64,646	\$47,135
Technology	\$9,965	\$24,264	\$21,142	\$18,081
Diversified	\$9,166	\$6,897	\$4,178	\$11,396

The three most targeted sectors by deal volume in 2010 were unchanged from the prior year. The largest gains in volume were in the energy, communications and basic materials sectors, while the financial and consumer cyclical sectors had a slight drop. Global deal volume rose 22 percent to \$2.2 trillion in 2010.

— Pratik M. Patel, Data Analyst

THE WIRE

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was a principal at SV Investment Partners. He also worked at J.W. Childs Associates and the M&A group of Salomon Brothers Inc.

■ **Charles DelGrande** was named senior managing director in the Chicago office of **McGladrey Capital Markets LLC**, where he will head the investment bank's media and technology group. He previously was managing director at Presidio Merchant Partners in San Francisco. He also worked at Proxicom, Chicago Tribune and Tribune Co.

■ **Sharlyn C. Heslam** and **Elizabeth L. Hoffman** were named managing directors at **Berkshire Partners LLC**, a Boston-based private-equity firm. Heslam is the firm's general counsel. She joined Berkshire in 2006 from Weil, Gotshal & Manges. Hoffman joined Berkshire in 2003 after working at the Sprout Group and Morgan Stanley.

■ **John Parnell** joined **MidCap Advisors LLC** as managing director and head of the firm's education group. Parnell heads MidCap's new Boston office and advises for-profit educational companies on acquisitions and transactions.

■ **Adam C. Spice** joined **Max-Linear Inc.** as vice president and chief financial officer. He previously was CFO of Symwave Inc., which was bought by Standard Microsystems Corp. in November. He also was vice president of finance and corporate development at Broadcom Inc., where he oversaw strategic planning and led more than 30 of the company's mergers and acquisitions. Before that, Spice had senior finance and corporate development roles with Intel Corp.'s planning and logistics division and with Intel Capital in its acquisitions and integration team.

■ **Dirk Eller** was named chief financial officer of **Clear Channel International**, based in London. He previously was senior vice president of corporate development and strategic planning at Clear Channel Communications Inc. Before joining the company, Eller worked at

Private Equity Partners Inc. in Fort Worth, Texas, and Bowles Hollowell Conner & Co., a predecessor of Wells Fargo Securities.

■ **Wesley C. Fredericks Jr.** joined **Jenner & Block** as partner and chair of the law firm's corporate practice in New York. He previously was partner at Goodwin Procter LLP. He also was chairman of Lotus Cars USA Inc. and was recognized in the 2010 edition of Thomson Reuters' New York Super Lawyers in mergers and acquisitions and corporate law.

■ **Stephen E. Lewis** became the managing partner of **Troutman Sanders LLP**, succeeding Robert W. Webb Jr., who remains chairman. **Andrea M. Farley** is taking over for Lewis as head of the law firm's corporate practice areas. Lewis was selected five times to Georgia Trend magazine's Legal Elite and six times as a Super Lawyer by Atlanta Magazine and Law & Politics for merger and acquisition law excellence.

■ **Neil M. Kaufman** joined **Abrams, Fensterman, Fensterman, Eisman, Greenberg, Formato & Einiger LLP** as a partner and chairman of its corporate department. He previously was a partner and chairman of the corporate department at Davidoff Malito & Hatcher LLP. Kaufman is chairman of the Long Island chapter of Financial Executives International, and previously headed the banking and securities law committee of the Nassau County Bar Association.

■ **Richard May** joined **Fried, Frank, Harris, Shriver & Jacobson LLP** as a corporate partner in London. He previously was partner at Simmons & Simmons. His practice focuses on M&A, joint ventures and securities offerings of financial-services firms. He also worked as legal adviser to the U.K. House of Commons European Scrutiny Select Committee and to the Regulatory Reform Select Committee.

■ **Gene N. Bardakjy**, **Chris A. Cummings**, **Michael T. Greif** and **Paul H. Miller** were named managing directors at **Empire Investment Holdings** in Miami.

Private-Equity Firms to Flood IPO Market

More than half of the U.S. initial public offerings planned for this year are from private-equity firms as **KKR & Co.**, **Blackstone Group LP** and **Carlyle Group** try to sell some of their biggest leveraged buyouts.

HCA Holdings Inc., **Nielsen Holdings BV**, **Kinder Morgan Inc.** and more than two dozen other companies owned by private-equity firms have registered with the Securities and Exchange Commission to sell \$14 billion of shares in IPOs, or 53 percent of the amount on file, according to data compiled by Bloomberg.

The total is more than double the \$6.6 billion raised in 2010, when their initial offerings accounted for 15 percent of sales.

"Private equity is certainly going to continue to bring to market either to monetize or de-lever the companies they bought," said **Robert H. McCooley Jr.**, senior vice president at **Nasdaq OMX Group Inc.** "That will be a big piece of the IPO market."

While private-equity firms were behind 31 initial sales in the U.S. last year, shares of the companies left buyers with the smallest gains. They rose 3.8 percent on average in the first month of trading, less than half the 8.1 percent advance for all other IPOs, data compiled by Bloomberg show.

In 2010, private equity-backed IPOs had average net debt of about 3.65 times annual Ebitda, the data show. Nielsen had a net debt-to-Ebitda ratio of 6.5, while Kinder Morgan has 7.2 times more net borrowings than its Ebitda over a full year, about the average for private equity-backed companies that have IPOs pending SEC approval, the data show.

"Leverage is always a concern," said **Lawrence Creatura**, a fund manager at **Federated Investors Inc.** "You'll have to endure the burden that most free cash flow is going towards debt service and debt pay down."

— Michael Tsang and Lee Spears

M&A LAW

BY NANCY BELTON AND MIGUEL A. VILLARREAL, BLOOMBERG LAW LEGAL ANALYSTS

Poison Pills, Freeze-Outs Among Top M&A Legal Events for 2010

As deal activity in 2010 accelerated, so too did M&A-related legal activity. Delaware, with its specialized Court of Chancery, again was an important forum for emerging issues in M&A law.

Poison Pills

Delaware courts issued several opinions on the validity of poison pills:

In *Yucaipa American Alliance Fund II LP v. Riggio*, 1 A.3d 310 (Aug. 12), the Chancery Court upheld a poison pill adopted by the **Barnes & Noble Inc.** board of directors after concluding it was a reasonable response to the threat posed by the accumulation of B&N stock by two **Ron Burkle**-controlled investment funds. The court found that the pill was intended to protect B&N shareholders from the threat that a shareholder bloc would gain control of B&N without paying a control premium.

In *Versata Enterprises Inc. v. Selectica Inc.*, 5 A.3d 586 (Oct. 4), the Delaware Supreme Court affirmed a ruling that upheld a poison pill adopted by the Selectica board to protect against possible tax losses. In 2009, Selectica's board adopted a poison pill that would guard against a possible "ownership change," which, under the Internal Revenue Code, could potentially lessen the value of the company's net operating loss carryforwards. The court concluded the pill was valid as the protection of future tax benefits was an important corporate objective and that the pill did not preclude a possible proxy contest.

By contrast, in *Ebay Domestic Holdings Inc. v. Newmark*, 2010 BL 217623 (Sept. 9), the Chancery Court invalidated a poison pill adopted by **Craigslist Inc.** and challenged by Craigslist minority shareholder Ebay. The court found that the pill was adopted in order to punish Ebay for starting a competing online classified service, Kijiji, rather than as a good faith response to a reasonably perceived threat, rejecting Craigslist's argument that the pill was necessary to protect its "corporate culture."

Removing Directors

Delaware courts also invalidated certain bylaw amendments that permitted the removal of directors by improper means as an end run to gain corporate control:

In *Crown EMAK Partners LLC v. Kurz*, 992 A.2d 377 (April 21), the Delaware Supreme Court affirmed a decision that invalidated a bylaw amendment purporting to reduce the size of the **EMAK Worldwide Inc.** board as a pretext to remove sitting directors by dissident shareholders. The court explained that the dissident shareholders were required to abide by Delaware director removal procedure, which requires written consent or vote of shareholders.

In *Airgas Inc. v. Air Products and Chemicals Inc.*, 2010 BL 280575 (Nov. 23), as part of the ongoing takeover battle between the two industrial companies, the Delaware Supreme Court rejected a bylaw amendment that would have forced target Airgas to hold its next annual meeting in January 2011, just four months after its 2010 meeting. The court ruled that the amendment was invalid because it amounted to a de facto removal of Airgas directors—whose terms could have been shortened by the January meeting—without cause, and thus inconsistent with Airgas's certificate of incorporation.

Two-Step Freeze-Outs

In *In re CNX Gas Corp. Shareholders Litigation*, 4 A.3d 397 (May 25), the Delaware Chancery Court clarified confusion among previous decisions on the standard of review applied to two-step freeze-out, in this case, a tender offer by CNX's controlling shareholder to be followed by a short-form merger. Applying the test from *In re Cox Communications Inc. Shareholders Litigation*, 879 A.2d 604, the court held that the CNX tender was subject to the more exacting "entire fairness" standard of review, rather than the business judgment rule, because the CNX tender had not been recommended by a special committee of independent directors and be-

cause there was a reasonable basis to doubt whether the bid effectively provided for approval of the holders of a majority of the minority shares.

Choosing a Bidder

In both *In re Dollar Thrifty Shareholder Litigation*, 2010 BL 216878 (Sept. 8), and *In re Cogent. Shareholder Litigation*, 2010 BL 239623 (Oct. 5), the Delaware Chancery Court, applying the Revlon standard requiring maximization of shareholder value in the sale or auction of a company, rejected shareholder claims that target boards impermissibly favored one bidder over another where the boards reasonably doubted the certainty of the latter — and potentially higher — bids.

Buyer Beware

In a reminder of the importance of due diligence and careful drafting, the Delaware Chancery Court in *Airborne Health Inc. v. Squid Soap LP*, 2010 BL 170208 (July 20), held that Airborne Health, the buyer in a sale of assets, had no duty to disclose information regarding litigation against it to the seller, Squid Soap, even though the litigation precluded Airborne from growing the business post-closing. The court found in Airborne's favor because it did not actively conceal the litigation, and because the only representation about litigation that Airborne made in the sale agreement was that it was not subject to any litigation that would inhibit its ability to sign or close the deal.

Regulatory Developments

The July 2010 passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act will have a major effect on future M&A of public companies in proxy access, golden parachutes and broker discretionary voting. The Federal Trade Commission lowered thresholds for required filings for horizontal mergers under the Hart-Scott-Rodino Act. Transactions valued at less than \$63.4 million will not be subject to antitrust review.

COMMENTARY BY RAY MURPHY, GUEST COLUMNIST

Intel's Deal for McAfee Moves Toward Completion With EC Filing

Intel Corp.'s acquisition of **McAfee Inc.** now appears to be moving forward to completion early in the new year after the companies addressed regulatory concerns at the European Commission.

Intel on Jan. 5 submitted regulatory commitments to the EC in an effort to resolve an inquiry into potential anticompetitive effects resulting from the combination.

Prior to the submission, the EC investigated whether the deal would allow Intel to embed McAfee's security software into its processing chips and thereby make it significantly more difficult for McAfee's rivals to compete in the security software market.

Specifically, the EC was believed to be studying whether Intel could use a technical feature called a "sleeper agent" to run promotional pop-up advertising for McAfee software, and whether Intel could skew processing chip performance to favor McAfee-enabled software and discourage

alternative security sources.

The decision to offer commitments – along with regulatory approval in the U.S. in late December – represents significant momentum for the completion of the transaction. Intel announced that it received antitrust approval from the Federal Trade Commission in the U.S. on Dec. 20. The FTC's unconditional clearance of the merger turned the regulatory spotlight to the remaining EC review.

While the details of the commitments that Intel has submitted to the EC are not yet known, the procedural development suggests that the deal could be completed as early as this month. The new formal deadline for an EC ruling is Jan. 26.

Intel unveiled the \$48 per share cash merger on August 19, 2010. With Intel as the buyer, there are no financing contingencies or concerns. McAfee shareholders approved the deal on Nov. 2.

The combination of McAfee's security software and Intel's hardware pres-

ents no direct or horizontal overlap in products. The antitrust issue focuses only on Intel's post-merger ability to discriminate against McAfee competitors or to force customers to purchase bundled or "tied" product offerings.

Traditionally, the FTC in the U.S. has not devoted much time to such vertical investigations, while the EC has consistently been more rigorous in its policing of these vertical or "tying" issues.

With the news of the commitments approach by Intel, McAfee stock traded up to \$47.28 a share, reflecting the optimism within the merger arbitrage community that the deal will be successfully completed.

A closing by the end of March 2011 provides a 6.08% annualized return. Since a closing by the end of January 2011 seems distinctly possible, the annualized arbitrage return could be as high as 18.24%.

Ray Murphy is owner and editor of ArbJournal. Reach him at raymurphy@arbjournal.com.

Merger Approvals by European Commission

COMPANIES	YEAR	LENGTH OF REVIEW	COMMENTS
Sun Microsystems Inc., Oracle Corp.	2009 - 2010	181 days	European Commission focused on SQL software maintenance. EC review took 181 days to complete, longer than our findings on other transactions.
Grand Metropolitan Plc, Guinness Plc	1997	152 days	Along with horizontal merger concerns, the EC was concerned that the expanded portfolio of beverages that the new entity would have could harm competition. With respect to the "tying" harm, the EC was concerned that the merged entity would force bars to use its brands as pouring brands. The commission stated that "a wide portfolio of categories confers major marketing advantages, giving [the new entity] the possibility of bundling sales or increasing the sales volume of one category by tying it to sale of another category." The EC required several divestitures to resolve the portfolio effects.
McDonnell Douglas Corp., Boeing Co.	1996 - 1997	162 days	The EC's main concern was with the horizontal overlap in the market for airframes for large commercial jets. The EC had an additional concern with the portfolio effects, saying "the large increase in Boeing's overall resources and in Boeing's defense and space business [would have] a significant spill-over effect on Boeing's position in large commercial aircraft and makes th[e] position even less assailable." With respect to the "tying" harm, the EC was concerned with Boeing being able to increase its dominant position through "opportunities for offset and bundling deals." The merger was approved upon the condition that the company not enter into or enforce exclusivity agreements with airlines.
Honeywell International Inc., General Electric Co.	2000 - 2001	157 days	This is the main case concerning portfolio effects, in which three theories of harm were presented. Only the "tying" theory is relevant for our purposes here. GE could potentially leverage their dominant position in aircraft engine into non-aviation systems. The EC concluded that the merger would significantly shrink the competition in the market. This decrease in competitors would "eliminate competition in [the] market, ultimately affecting adversely product quality, service, and consumers' prices."

Source: ArbJournal

Deal Roster

Cerberus Capital Management LP turned to its longtime outside counsel, **Schulte Roth & Zabel LLP**, for advice on the \$6.3 billion proposed sale of **Chrysler Financial Corp.** to **Toronto-Dominion Bank**.

The law firm, known for representing hedge funds, represented Cerberus in the original 2007 acquisition of the Chrysler automaker and lender. Cerberus's chief operating officer, **Mark Neporent**, joined from Schulte in 1998.

Schulte has worked on 15 acquisitions for Cerberus, according to data compiled by Bloomberg, the most of any law firm. **Freshfields Bruckhaus Deringer** came in second with six deals, the data show.

Toronto-Dominion is paying about 1.2 times book value, according to an unnamed source cited by Bloomberg News. When **General Motors Corp.** bought **AmeriCredit Corp.** in a \$3.5 billion deal in October, it paid about 1.4

times the book value AmeriCredit assigned itself, according to Bloomberg data.

The acquisition, announced Dec. 21, would be the biggest of a U.S. lender since **Wells Fargo & Co.** bought **Wachovia Corp.** in December 2008 for about \$15 billion. The deal would be the second-largest acquisition by a Canadian bank, ranking behind its \$8.33 billion deal for Commerce Bancorp Inc. in 2008, according to Bloomberg data.

— By Zachary Mider

Seller:	Cerberus Capital Mgmt. At Cerberus: Mark Neporent
Investment banks	Citigroup Inc. Jeffrey Cady
	JPMorgan Chase & Co. Mark Feldman
	Sandler O'Neill & Partners John Ziegler
Law firms	Schulte Roth & Zabel LLP Dan Kusnetz Richard Presutti Joseph Vitale Alan Waldenberg

Since joining Sandler in 2005 from Goldman Sachs, Ziegler has worked with clients including Sun-Trust Banks and Compass Bancshares.

Represented Cerberus on the Chrysler acquisition and advised Chrysler on the sale of its assets to Fiat SpA.

Buyer:	Toronto-Dominion
Investment Banks	Goldman Sachs Group Inc. Susan Ciccarone John Mahoney Jacquelyn Titus
	TD Securities
Law firms	Simpson Thacher & Bartlett LLP Lee Meyerson Ellen Patterson Steven Todrys (tax) Gary Rice (bank regulatory) Laura Palma (securitization) Andrea Wahlquist (executive compensation) Lori Lesser (intellectual property) Joseph Tringali (antitrust)
	Torys Michael Feldman Jim Hong Blair Keefe (regulatory) Jay Holsten (competition) Chris Medland (employment) Pat Flaherty (litigation)

Head of Goldman Sachs' bank advisory group.

Runs Simpson's financial institutions and M&A practices.

ARB ANALYSIS

TOM BURNETT, GUEST COLUMNIST

Private-Equity Firms Put More 'Skin in Game' Than During Last LBO Boom

Leveraged-buyout firms could be putting more equity into deals than they did during the last LBO boom, according to our analysis of transactions in the fourth quarter.

The proposed acquisition of **Del Monte Foods Co.**, the biggest leveraged buyout announced in the past two and a half years, is noteworthy of a current financing trend in private-equity deals.

The company on Nov. 25 agreed to be ac-

quired for \$5.3 billion by an investor group led by **KKR & Co.**, **Vestar Capital Partners** and **Centerview Partners**. The transaction is biggest leveraged buyout since the takeover of **Angel Trains Ltd.** in August 2008, according to data compiled by Bloomberg.

The Del Monte transaction is structured as a cash merger at a price of \$19 per Del Monte share, for an aggregate price that includes \$1.3 billion of its debt, net of cash holdings.

Del Monte disclosed in a Dec. 15 filing with the Securities and Exchange Commission that the proposed buying group would invest \$1.7 billion in equity capital to help finance the takeover.

This equity commitment equates to 32.1 percent of the total deal value. This equity-to-deal value proportion is fairly typical of LBO deals in the fourth quarter, as the nearby table of recent private-equity deals shows.

The equity commitment ratio to total deal value ranges from 26.8 percent to 45.9 percent among the eight transactions with private-equity buyers.

By comparison, a selection of large private-equity deals from the 2006-2008 period, when leveraged buyouts reached a record peak, shows a much lower equity commitment profile.

For example, the eight completed transactions for that period present a range of equity commitment to total value of 17.1 percent to 25.8 percent. The range for the four terminated proposals for the earlier period is 21.4 percent to 32.5 percent.

Generally, it appears that the recent group of private equity proposals has a higher equity component from the sponsors than was evident in the 2006-2008 period.

This difference may indicate sellers have learned from the problems that arose in deals structured in the earlier period and have insisted that prospective buyers commit more equity to leveraged transactions.

The increased equity commitment in the more recent deals may also reflect concerns from lenders who are now requiring sponsors to have more "skin in the game" to reduce the risk of financial failure or default after the merger has closed.

Importantly, this enhanced equity commitment from sponsors and buyers has not reduced the overall private-equity deal flow. It has made the resulting companies safer, less leveraged and better able to face the uncertain future of a fragile economic environment.

Tom Burnett, CFA, is director of research at Wall Street Access, an NYSE firm. Linda Varoli, CFA, vice president of M&A research at the company, assisted with this analysis.

Private Equity Deals

TARGET	BUYER	ANNOUNCED	CLOSING	VALUE (\$ BN)	EQUITY FINANCING (\$ BN)	EQUITY FINANCING (%)
NBTY Inc.	Carlyle Group	07/15/10	10/1/2010	\$4.05	\$1.60	40%
Burger King	3G Capital	09/02/10	10/20/2010	\$4.06	\$1.50	37%
Gymboree Corp.	Bain Capital	10/11/10	11/23/2010	\$1.95	\$0.52	27%
CommScope Inc.	Carlyle Group	10/25/10	pending	\$4.56	\$1.75	38%
Syniverse Tech.	Carlyle Group	10/28/10	pending	\$2.71	\$1.25	46%
J. Crew Group	TPG/LGP	11/23/10	pending	\$3.00	\$1.27	42%
Del Monte Foods	KKR/Vestar/Centerview	11/25/10	pending	\$5.30	\$1.70	32%
Jo-Ann Stores	LGP	12/23/10	pending	\$1.60	\$0.45	28%

Completed Deals (2006-2008)

TARGET	BUYER	ANNOUNCED	CLOSING	VALUE (\$ BN)	EQUITY FINANCING (\$ BN)	EQUITY FINANCING (%)
First Data Corp.	KKR	04/01/07	9/25/2007	\$29.00	\$7.17	25%
Manor Care Inc.	Carlyle Group	07/02/07	12/21/2007	\$6.60	\$1.30	20%
Harrahs	Apollo/TPG	12/19/06	1/28/2008	\$26.10	\$5.87	22%
Hilton Hotels Corp	Blackstone	07/03/07	10/24/2007	\$22.50	\$5.50	24%
TXU Corp.	KKR/TPG	02/26/07	10/10/2007	\$46.70	\$8.00	17%
Alltel Corp.	TPG/GS Capital	05/20/07	11/16/2007	\$26.30	\$4.60	17%
Claire's Stores	Apollo	03/20/07	5/27/2007	\$3.27	\$0.60	18%
Avaya Inc.	Silver Lake/TPG	06/04/07	10/26/2007	\$8.49	\$2.19	26%

Terminated Deals (2006-2008)

TARGET	BUYER	ANNOUNCED	CLOSING	VALUE (\$ BN)	EQUITY FINANCING (\$ BN)	EQUITY FINANCING (%)
Alliance Data Syst.	Blackstone	05/17/07	4/18/2008	\$7.90	\$1.80	23%
Penn Nat'l Gaming	Fortress	06/15/07	7/3/2008	\$9.40	\$3.06	33%
Myers Industries	GS Capital	04/24/07	4/3/2008	\$1.07	\$0.29	27%
United Rentals	Cerberus Capital	07/22/07	12/23/2007	\$7.00	\$1.50	21%

Source: Bloomberg LP, company filings

Deal Arbitrage

Spreads for select M&A deals with U.S.-listed targets

TARGET	ACQUIRER	DEAL SIZE (\$M)	ANNOUNCED DATE	EXPECTED COMPLETION DATE	OFFER PER SHARE	ANNOUNCED PREMIUM IN %	LAST TARGET PRICE	CURRENT PREMIUM %	SPREAD	LAST SPREAD MOVE
AIRGAS INC	AIR PRODS & CHEM	7,496.88	02/05/10	01/14/11	70	48.32	63.65	9.98	6.35	-2.21
LTX-CREDENCE COR	VERIGY LTD	320.21	11/18/10	06/30/11	12.4	39.23	7.4	67.61	5	0.65
TALECRIS BIOTHER	GRIFOLS SA	3,901.90	06/07/10		27.63	53.94	22.94	20.4	4.68	-0.19
ALCON INC	NOVARTIS AG	11,742.65	12/15/10	06/30/11	168	4.45	163.47	2.77	4.53	-1.42
BUCYRUS INTERNAT	CATERPILLAR INC	8,608.90	11/15/10	06/30/11	92	31.29	89.91	2.32	2.09	-0.51
VERIGY LTD	ADVANTEST CORP	606.7	12/06/10		15	68.26	12.92	16.1	2.08	-0.29
PENN VIRGINIA GP	PENN VIRGINIA RE	1,525.05	09/21/10		27.37	11.73	25.82	6.01	1.55	0
NICOR INC	AGL RESOURCES	3,138.10	12/07/10	06/30/11	51.29	17.61	49.75	3.1	1.54	0.21
EXCO RESOURCES I	PRIVATE INVESTOR	5,183.24	11/01/10		20.5	37.71	19.06	7.56	1.44	0.43
JOHN STORES	Private	1,618.33	12/23/10	06/30/11	61	31.92	60.23	1.28	0.77	-14.6
DIONEX CORP	THERMO FISHER	2,068.14	12/13/10	01/19/11	118.5	27.6	117.76	0.63	0.74	0.35
MCAFFEE INC	INTEL CORP	6,593.67	08/19/10		48	52.32	47.36	1.35	0.64	-1.06
CITADEL BROAD	CUMULUS MEDIA	2,318.73	12/17/10		31	13.24	30.5	1.64	0.5	-0.5
ALBERTO-CULVER	UNILEVER NV	3,701.34	09/27/10		37.5	20.63	37.03	1.27	0.47	-0.09
HYPERCOM CORP	VERIFONE SYSTEMS	444.4	09/29/10	06/30/11	9.57	70.37	9.11	5	0.46	-0.07
WHITNEY HLDG	HANCOCK HLDG CO	1,377.74	12/22/10	06/30/11	14.32	41.37	13.87	3.28	0.45	0
BALDOR ELECTRIC	ABB LTD	4,146.40	11/30/10	01/10/11	63.5	43.66	63.06	0.7	0.44	0.11
ATHEROS COMMUNIC	QUALCOMM INC	2,917.42	01/05/11	06/30/11	45	26.55	44.56	0.99	0.44	-
ALLEGHENY ENERGY	FIRSTENERGY CORP	9,216.11	02/11/10	04/30/11	25.45	36.15	25.05	1.61	0.4	-0.1
MARSHALL & SILSLEY	BANK OF MONTREAL	4,020.85	12/17/10	07/31/11	7.33	43.71	7.03	4.34	0.3	-0.044

League Tables

Global Financial Advisers

FINANCIAL FIRM	2010 Full Year			
	RANK	MKT SHARE	VOLUME USD (Mln)	DEAL COUNT
Morgan Stanley	1	21.53	477,754	332
Goldman Sachs & Co	2	19.93	442,340	298
JP Morgan	3	17.16	380,959	265
Credit Suisse	4	15.90	352,987	214
Barclays Capital	5	14.55	322,850	150
UBS	6	12.82	284,446	207
Deutsche Bank AG	7	12.18	270,293	207
Bank of America Merrill Lynch	8	11.48	254,831	222
Citi	9	11.06	245,572	174
Lazard LLC	10	9.28	206,052	190
Rothschild	11	8.36	185,506	197
BNP Paribas Group	12	5.09	112,901	83
HSBC Bank PLC	13	4.73	105,061	70
Nomura Holdings Inc	14	4.73	105,003	173
Societe Generale	15	3.22	71,417	31
Evercore Partners Inc	16	2.97	65,859	37
Perella Weinberg Partners	17	2.86	63,524	20
RBC Capital Markets	18	2.78	61,760	131
Blackstone Group	19	2.76	61,278	32
Macquarie Group Ltd	20	2.68	59,428	111

Source: Bloomberg
Excludes terminated deals.

As of: 12/31/2010

Global Legal Advisers

LEGAL FIRM	2010 Full Year			
	RANK	MKT SHARE	VOLUME USD (Mln)	DEAL COUNT
Skadden Arps Slate Meagher & Flom	1	12.03	267,091	222
Sullivan & Cromwell	2	9.94	220,566	147
Simpson Thacher & Bartlett	3	9.59	212,903	161
Freshfields Bruckhaus Deringer	4	9.01	199,925	250
Latham & Watkins LLP	5	8.76	194,363	271
Cleary Gottlieb Steen & Hamilton	6	7.13	158,200	118
Linklaters LLP	7	6.57	145,873	206
Wachtell Lipton Rosen & Katz	8	6.32	140,184	52
Weil Gotshal & Manges LLP	9	6.14	136,216	153
Dewey & LeBoeuf LLP	10	5.69	126,178	95
Shearman & Sterling LLP	11	5.33	118,325	146
Davis Polk & Wardwell	12	5.01	111,133	101
Allen & Overy LLP	13	4.85	107,617	189
Stikeman Elliott	14	4.53	100,547	105
Blake Cassels & Graydon LLP	15	4.39	97,438	136
Clifford Chance LLP	16	4.29	95,266	147
Jones Day	17	4.01	89,058	392
Gibson Dunn & Crutcher	18	3.87	85,867	114
Mallesons Stephen Jaques	19	3.80	84,237	73
Cravath Swaine & Moore	20	3.69	81,817	54

Source: Bloomberg
Excludes terminated deals.

As of: 12/31/2010

Calendars

To submit an event email mergerbrief@bloomberg.net

Anticipated Approvals

DATE	TARGET	ACQUIRER	DEAL VALUE	TYPE
1/12	McAfee Inc.	Intel Corp	6594	Target and acquirer shareholders
1/12	Syniverse Holdings Inc.	Carlyle Group	1561	Target and acquirer shareholders
1/12	Atlas Energy Inc.	Chevron Corp	4916	Hart-Scott-Rodino
1/18	Applied Signal Technology Inc.	Raytheon Co	491	Target Shareholders
1/20	Bucyrus International Inc.	Caterpillar Inc.	8609	Target Shareholders
1/20	Prime Investments Group Ltd.	Phoenician Corp V	482	Target and acquirer shareholders
1/31	Ssangyong Motor Co.	Mahindra & Mahindra Ltd	788	Target Shareholders
1/31	Avoca Resources Ltd	Anatolia Minerals	877	Acquirer Shareholders
1/31	AXA Asia Pacific Holdings	National Australia Bank	5502	Target Shareholders
2/3	L-1 Identity Solutions Inc.	Safran SA	1582	Local Court
N/A	Dynegy Inc	Blackstone Group LP	4597	Target Shareholders

Calls and Meetings

DATE	TIME	COMPANY	EVENT	DESCRIPTION
1/7	3pm	Vantage Drilling Co	Annual General Meeting	Credit Suisse saw company as acquisition target this summer. Shares have rallied by over 20 percent since Dec. 7 on insider buying, contract win.
1/11		Ford Motor Co	Analyst Conference	Intends to raise its 30 percent stake in Jiangling Motors Corp., Reuters reported on Dec. 17.
1/17	4pm	Commercial Metals Co.	Annual General Meeting	M&A chatter led to 2 percent gain on Dec. 2, according to Briefing.com
1/18	8am	Ariba Inc.	Annual General Meeting	Last quarter returned to M&A after three year absence, acquiring Quadrem and selling business process outsourcing services assets to Accenture.

Conferences

DATE	EVENT	FEATURING	LOCATION	CONTACT / REGISTRATION
Jan. 11	Agrioni LLC's M&A in Cleantech	"Transforming a sector."	Garden Court Hotel, Palo Alto, Calif.	agrion.org
Jan. 11-13	AM&AA Winter Conference	"Back in the Game - The New Winning Strategies."	Hilton New Orleans Riverside	amaaonline.com
Jan. 13	Argyle Forum's 2011 Leadership in the Distressed Markets	Wilbur Ross, Steve Rattner.	New York (exact location disclosed to attendees)	Request an invite by emailing lgochanour@argyleforum.com
Jan. 18-19	M&A Leadership Council's Art of M&A Integration	"Creating your 'playbook' for success in business integration."	Marriott, Irving, Texas.	macouncil.org
Jan. 20, 6pm	ACG New York	Annual Winterbash	Midtown Executive Club, New York	acg.org/nyc
Jan. 25	Bloomberg Debt Crisis Briefing	Didier Reynders, Deputy Prime Minister and Minister of Finance, Belgium.	Museum of Arts and Design, New York	Tracy David, 646-834-5021, mdavid20@bloomberg.net
Jan., 25	2011 Leadership in Corporate Divestitures and Acquisitions	Kristen Peck, Pfizer; Roger Marinzoli, Wyndham Hotels and Resorts; Mohamad Ali, Avaya.	New York (exact location disclosed to attendees)	Request an invite at argyleforum.com
Jan. 25-26	Investment and M&A Opportunities in Health Care	"'Poster presentations' from CEOs, CFOs and other corporate development executives."	Nashville (Tenn.) Convention Center	ibig.com/conferences/F1101
Feb. 2	Bloomberg China Investment Strategies	Key topics to be provided by Bloomberg Greater China news team.	New York Public Library	Caroline Richenberg, 646-834-5018, crichenberg@bloomberg.net
Feb. 2-4	Private Equity World Australia	Keynotes include John Brakey, KKR Australia.	Park Hyatt Melbourne	terrapin.com
Feb. 7-11	AM&AA's Certified Merger & Acquisition Advisor Credentialing Program	"Course objectives taught by seasoned M&A professionals are designed to improve leadership competencies to a new 'gold standard' level of excellence."	Graziadio Executive Conference Center, Malibu, Calif.	amaaonline.com

Deal Data

Qualcomm Pays Higher-Than-Average Premium in Cash Deal for Atheros

Qualcomm Inc. is paying 23 times Ebitda in its agreement to buy **Atheros Communications Inc.** for about \$3.2 billion in cash. The median Ebitda multiple for similar deals in the industry in the past five years was 15, according to data compiled by Bloomberg.

The acquisition is Qualcomm's biggest since it went public in 1991.

Qualcomm has announced 26 acquisitions in the past five years with an average size of \$320.3 million and average premium of 8.9 percent, according to Bloomberg data.

There have been more than 40 acquisitions in the U.S. networking-products industry in the

past 12 months with an average premium of 48 percent, according to Bloomberg data. The premium is calculated from the 20-day average trading price prior to the announcement. The premium for Atheros was 27 percent on that basis.

The average deal size in the networking-products industry was \$205.8 million in the same period, including net debt.

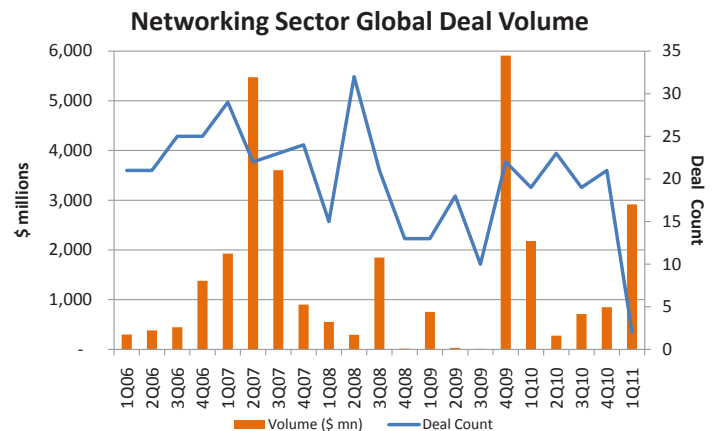
Frank Quattrone's Qatalyst Partners advised Atheros, while **Barclays Capital** was financial adviser to Qualcomm. Qatalyst provided a fairness opinion to Isilon Systems Inc. in its \$2.2 billion takeover by EMC Corp.,

completed Dec. 22.

Cravath, Swaine & Moore represented Qualcomm in the deal, led by partners **Scott Barshay** and **Damien Zoubek**, according to the firm's website. Cravath represented Qualcomm in litigation over a licensing agreement with Nokia and in sanctions proceedings related to a patent dispute with **Broadcom Corp.**, according to an Am Law Daily report.

Pillsbury Winthrop Shaw Pittman, led by corporate partners **Jorge del Calvo** and **Allison Leopold-Tilley**, provided legal advice to Atheros. The attorneys incorporated Atheros in 1998, according to the law firm's website.

Target	Atheros Communications Inc.
Acquirer	Qualcomm Inc.
Announced Date	Jan. 5
Expected Completion Date	June 30
Payment Type	Cash
Cash Terms	\$45 a share
Announced Value	\$2.92 billion
Announced Premium	26.6%
Equity Value Multiples	
Enterprise Value	2.40x
Total Assets	2.98x
Book Value	3.8x
Stockholder Equity	3.8x



Source: Bloomberg

Target Name	Announced Date	Announced Value (\$ millions)	Deal Multiples (times)							
			EBITDA	EBIT	Revenue	Net Income	Net Income + Depreciation	Income before XO	Cash Flow from Operations	Free Cash Flow
Atheros Communications Inc	01/05/11	2,917.42	22.88	31.36	3.83	36.39	25.44	36.39	19.21	85.45
Comp Deals Median			17.73	27.54	3.46	38.72	20.01	40.37	26.04	138.97
3Com Corp	11/11/09	2,679.18	23.04	135.77	2.49	74.26	20.2	74.26	12.19	226.37
Starent Networks Corp	10/13/09	2,244.80	25.98	30.87	8.55	43.49	34.38	43.49	35.03	175.26
Foundry Networks Inc	07/21/08	1,567.98	21.87	24.21	3.76	27.12	24.22	27.12	18.85	128.07
Aeroflex Inc	05/21/07	1,092.64	13.6	21.69	1.91	38.72	18.78	37.24	33.24	128.46
Ambit Microsystems Corp	11/06/03	1,054.91	13.57	15.76	1.47	18.39	15.48	18.39	35.14	138.97
Switch & Data Facilities Co Inc	10/21/09	855.84	11.71	38.32	3.46		19.82		13.34	
Oni Systems Corp	02/18/02	769.46			5.87					
Sirti SpA	07/27/07	747.48				11.21	11.21			
SafeNet Inc	03/05/07	713.53			2.9	333.76	333.76	333.76		
Unisphere Networks Inc	05/20/02	671.85			238.73					
Comp Deals Min			11.71	15.76	1.47	11.21	11.21	18.39	12.19	128.07
Comp Deals Avg			18.3	44.43	29.91	78.13	59.73	89.04	24.63	159.43
Comp Deals Max			25.98	135.77	238.73	333.76	333.76	333.76	35.14	226.37

Source: Bloomberg

Q&A

John Orrico, who manages the \$2.2 billion **Arbitrage Fund** as president of **Water Island Capital**, spoke with Bloomberg's Alex Sherman about his investing strategy and trades of Mariner Energy and Potash Corp. of Saskatchewan in 2010.

Q: What makes for a good market in arbitrage?

A: The key to merger-arb returns in terms of what's optimal is No. 1: normalized interest rates, and I don't think we're in a period of this yet. No. 2: We'd like to be at the midpoint or the latter stages of an economic cycle or expansion mode. A big driver of merger-arbitrage returns is the time-value of money, meaning what you can earn in a risk-free Treasury is going to drive opportunity away from merger-arb transactions. In this low-interest rate environment today, it's clearly not a positive for spreads, but we also know that economic uncertainty, fear in the marketplace can make investing in this strategy more difficult.

Q: Why did you decide to close the fund to new investors?

A: We want to grow with our current investors that helped us get to where we are, and we want to remain nimble. It's important because we find that the spreads are more interesting and opportunistic among smaller and midcap companies. We think the likelihood for hostile bidding and counter-bidding is greater for companies with market caps of less than a billion. We invest in transactions well under \$100 million.

Q: Give me an example of one trade you made in 2010 that worked out well.

A: Apache [Corp.]'s purchase of **Mariner Energy** was announced early in the year but wasn't completed until November. Apache was looking to make an acquisition to boost reserves and boost its presence in the Gulf of Mexico and in Midwest gas fields, where Mariner

had a strong presence. After the BP disaster hit in May, and with it the moratorium on drilling, there was a big fear that a lot of the drillers that had a Gulf presence would suffer. A lot of arbitrageurs overreacted to Mariner's presence in the Gulf and felt that Apache wouldn't go through with the deal. The transaction offered investors approximately a five percent rate of return following the deal announcement. Maybe fifty cents a share on a \$20 stock. That spread went out to nearly \$3 during the summer. The fear was that if the deal collapsed, Mariner would fall from the \$22 range to the \$15 or \$16 range. We thought the fears were overblown. Apache was very committed. The company wasn't looking just a quarter or two ahead.

Q: Is there a current deal still pending that you're invested in that you're particularly confident will close?

A: Unilever's pending acquisition of Alberto-Culver has had a couple of regulatory hurdles but should close soon. Unilever is looking for some product extensions. Solid deal, strong buyer, and while there are some overlaps in their product lines, we think they're solvable. So the only question is how long will the regulatory reviews take? We think the transactions will close by the beginning of March. Clearly there's risk there, but we're being compensated for it to the tune of five percent on an annualized basis.

Q: Is there a deal situation that you try to avoid, or at least hedge?

A: Hostile bids that center on a company that's not already a party to a deal bring risk, and we try to limit our exposure. There's a difference

between a company like that and a company like 3Par, which signed a transaction that had a high likelihood of closing, and someone comes in and trumps that bid. We love to play those competitive bidding situations. But let's take the case of BHP making a bid for Potash. We had a small position there, even though most of these types of hostile bids are not successful. We weren't that concerned if the deal failed because Potash's peer group's share prices rose nearly 40 percent from the time of BHP's bid on the back of higher commodity prices, grain prices and droughts. If we applied those same valuation metrics to Potash, we were coming up with fair value of \$140 to \$150 a share. We thought the more likely outcome was BHP raising its bid to \$155 to \$165 to secure shareholder support. The way we positioned ourselves was to buy shares of Potash but to be short \$145, \$150 and \$155 calls. Then we'd use that premium to purchase \$140 puts and \$135 puts. When the BHP bid initially failed, shares traded down from \$143 to \$137. But fair value for us was still between \$140 and \$150. It's turned out to be a profitable trade for us, because our cost basis was around \$141. The story here is that just because a deal doesn't work doesn't mean we can't position ourselves for an optimal risk-reward.

John Orrico came to Wall Street in 1982. He worked for Gruss & Co., the investment firm established to manage the Gruss Family Trust, where he was first introduced to merger arbitrage. He started his own business in 2000, taking the Gruss family strategy and making it available to the public.