

Fall 2012

Client Focus

Gold Standard

CLIENT PROFILE

How USA Basketball evolved its game to stay ahead of the global competition

RESEARCH SPOTLIGHT
Macro Trends, Politics
Make Energy Services a
Space to Watch

PLANNING SPOTLIGHT
Year-end Tax Planning
Amid Election
Uncertainty





Evolve and Adapt

The recent passing of astronaut Neil Armstrong brought back vivid memories of the night in July 1969 when 500 million people watched in awe as Armstrong became the first man to walk on the moon. Like every other family, mine was mesmerized by the grainy black-and-white images on our TV. Suddenly, everything changed. The world seemed smaller. Our aspirations were bigger. Anything was possible.

In a sense, Armstrong's "one small step" marked the beginning of a new era – one driven by innovation and new technology. In the four decades since, we have experienced a significant redrawing of geopolitical maps, the removal of trade barriers, and the ability to share information instantaneously.

In our world of globalization and lightning-fast communication, success depends on your ability to evolve and adapt. William Blair's client, USA Basketball, is a great example.

As the country that invented the sport, the United States dominated the Olympics and other international basketball competitions for most of the 20th century. But as the sport gained popularity around the world, other countries quickly closed the talent gap.

After a disappointing bronze-medal performance at the 2004 Olympics by the U.S. men's team, USA Basketball recognized the need to change the way it built and coached its teams. Their ability to adapt and evolve was evident in London this summer as both the U.S. men's and women's teams swept their way to gold medals.

Investors' ability to adapt is being tested by the elections, the looming "fiscal cliff," and healthcare reform. The evolving tax landscape certainly makes year-end tax planning a challenge. We are closely monitoring the developments in Washington, D.C., and our planning team is available to work with you and your financial advisor to help you effectively plan for the changes to come. The article on page 5 outlines the potential impact of the elections on tax rates and discusses several year-end strategies for this uncertain environment.

In a few weeks, we will celebrate Thanksgiving and the kick-off of the holiday season. While Thanksgiving is an American holiday, the simple gesture of saying "thank you" is one that is globally understood. On behalf of my colleagues in Chicago and around the globe, thank you for the trust you have placed in us. Happy Thanksgiving.

Sincerely,

John Ettelson
PRESIDENT AND CEO

Gold Standard

Bringing home two gold medals from the London Olympics, William Blair client USA Basketball has reestablished itself as the leader in international hoops.

When the U.S. men’s basketball team, behind Oklahoma City Thunder star Kevin Durant’s 30 points, beat Spain 107-100 in the gold-medal game and the U.S. women beat France 86-50 in its gold-medal clash at this summer’s Olympics, casual sports fans might have considered the U.S.’s victories a mere inevitability.

With starting lineups featuring superstars Durant, LeBron James, and Kobe Bryant and Sue Bird, Maya Moore, and Diana Taurasi, who could possibly stop the United States from reaching the top of the medal stand on both the men’s and women’s sides? Both rosters were so packed with talent that perennial NBA all-star Carmelo Anthony and former WNBA most valuable player Candace Parker came off their teams’ respective benches. Anything short of a gold medal would be a massive disappointment, right?

Such are the expectations when you represent the country that invented basketball and then turned it into a global phenomenon. And these are the expectations that USA Basketball, the Colorado Springs–based not-for-profit organization that runs the country’s men’s and women’s basketball teams, strives to fulfill each time the United States steps on the court.

“Gold is the expectation,” said Jim Tooley, who has served as the executive director and CEO of USA Basketball since 2001. “It’s a position that we want to be in. We want to be the standard.”

USA Basketball overwhelmingly lived up to those lofty standards in 2012. Capped by the men’s and women’s teams’ gold in the London Olympics, the United States went a perfect 42-0 in six separate international five-on-five competitions this summer.

Getting Back to the Top

Anyone who considers gold medals a birthright for the U.S. basketball teams needs only to look back at the years from 2002 to 2006 to see that this is no longer the case. During that span the U.S. men finished sixth in the 2002 World Championship, third in the 2004 Olympics in Athens, and third in the 2006 World Championship. While the U.S. women won gold at the 2002 World Championship and the 2004 Olympics, they suffered a rare setback and settled for bronze at the 2006 World Championship. >>



Led by stars such as Kobe Bryant and Lindsay Whalen (with coach Geno Auriemma), the U.S. men’s and women’s teams combined to go 16-0 at the London Olympics. It was the fifth straight Olympic gold for the women and fifth in the past six Olympics for the men.

Photos courtesy of Garrett Ellwood/NBAE/Getty Images



Photos courtesy of Garrett Ellwood/NBAE/Getty Images

“Every time you put on that USA jersey there’s a certain expectation there,” said three-time U.S. Olympic gold medalist guard Sue Bird (far right). “Not just in the Olympics, but every time we take the court, no matter where we are. And the expectation is to win and most times to win big. There’s definitely some pressure there, but no more than we put on ourselves. We want to win that gold medal just as much as anybody.”

After finishing a disappointing 5-3 during the 2004 Athens games, USA Basketball revamped the way it went about putting together its men’s national team. Former Phoenix Suns Chairman and CEO Jerry Colangelo was given the new position of managing director and the responsibility of building a true national team that was designed to win international competitions against more experienced squads.

“That was the end of us just getting 12 guys together and putting them out there,” Tooley said.

One of the biggest challenges facing the United States was a lack of continuity. Many of the men’s and women’s teams the United States goes up against have been playing together as a unit since they were teenagers, according to the USA Basketball communications chief, Craig Miller. “What we have in talent, they make up for in familiarity,” he said.

To help build this continuity within the U.S. men’s squad, Colangelo made sure that the players he was recruiting knew that playing for USA Basketball was a multiyear commitment. Colangelo selected Duke University’s Hall of Fame coach Mike Krzyzewski to lead the U.S. men’s team.

The new strategy began paying dividends at the 2008 Beijing Olympics, where the U.S. men’s team won its first gold since 2000. The United States went on to win gold at

“Gold is the expectation. ...It’s a position we want to be in. We want to be the standard.”

Jim Tooley, CEO and executive director of USA Basketball

the 2010 World Championship and again this summer at the London Olympics.

The U.S. women’s team, coached by legendary University of Connecticut coach Geno Auriemma from 2009 through 2012, has matched—or even surpassed—the men’s brilliance. The women’s team has won gold at five consecutive Olympics and five of the past seven World Championships.

The Closing Talent Gap

In today’s international basketball arena, the United States hardly has a monopoly on star power. To win gold in London, the U.S. men had to overcome Spain, led by Pau Gasol of the Los Angeles Lakers and seven other current or former NBA players, and Argentina, led by Manu Ginobili of the San Antonio Spurs and three other current NBA players.

On the women’s side, nine of the 12 teams competing in London featured current or former WNBA players. Bronze medalist Australia, which led the United States at halftime of their semifinal game before the United States rallied for a 86-73 victory, featured seven current or former WNBA players, including three-time WNBA MVP Lauren Jackson.

Tooley said that the caliber of play outside the United States has improved tremendously since the U.S. men’s “Dream Team” steamrolled its way to gold in the 1992 Barcelona Olympics.

“They have closed the gap,” Tooley said. “Now there are a lot of teams that can compete for gold.”

Building a Pipeline

Although international basketball rises to the U.S.’s national sporting consciousness every four years during

“When you have ‘USA’ across your chest, there’s so much on the line. It’s a great honor to be able to represent your country.”

Jahlil Okafor, center on the U.S. men’s under-17 team

the Olympics and to a lesser extent for the World Championships, building these elite teams is a year-round, multifaceted effort for Tooley and his staff.

In addition to the men’s and women’s national teams that compete in the Olympics and World Championships, USA Basketball also fields collegiate teams and junior teams made up of players 15 to 18 years old. Over the past four years, nearly 1,300 players and more than 200 coaches participated in USA Basketball.

“The junior teams help us identify athletes who will be eventual Olympians for us,” Tooley said.

One of those potential future Olympians is Jahlil Okafor. A 6’10” junior at Chicago’s Whitney Young High School, Okafor led the U.S. to gold at the FIBA U17 World Championship in Lithuania this summer and was named the tournament’s most valuable player. “Competing for the U.S. in the Olympics someday is one of my highest goals,” Okafor said.

USA Basketball receives about 65% of its revenue through corporate sponsorships, merchandise sales, and other marketing channels. The organization also receives a portion of its funding from the U.S. Olympic Committee.

William Blair & Company has provided cash management and fixed-income portfolio management for USA Basketball since 1997.

“USA Basketball does a tremendous job of providing our men’s and women’s teams with the support and resources they need to be successful on the court while instilling the tools to be successful off the court,” said Paul Sularz, a portfolio manager with William Blair’s fixed-income team. “As the international basketball competition gets tougher and tougher, it’s a thrill to see the U.S. continually rise to the challenge and proudly represent our nation.”

One should not assume that the listed client approves or disapproves of William Blair & Company or the advisory services provided.

EQUITY RESEARCH

Macro Trends and Politics Make Energy Services a Space to Watch

The future of the energy industry is being reshaped by global population shifts, increasing concerns about sovereign energy security, new technologies, and the limitations of traditional energy sources. These forces are creating significant opportunities for energy services companies in the United States and abroad, according to William Blair & Company equity research analyst Brandon Dobell.

“The significant demographic and socioeconomic shifts expected over the coming decade will have a profound impact on the amount and type of energy consumed,” Dobell said in a September report on the energy services industry.

Dobell initiated research coverage of nine energy services companies that he believes are well positioned to help the world’s major energy producers identify and develop new sources of oil and natural gas.

“While conventional oil and gas will remain significant sources of hydrocarbons, we believe the rise of unconventional sources for oil and gas will be one of the most important stories of the next several decades,” Dobell said.

He said the rising complexity of finding, developing, and producing hydrocarbons offshore and from unconventional sources, such as biofuels, oil sands, and shale oil, will require tremendous investments in the equipment, data, services, and technical expertise provided by energy services companies.

To receive a copy of Dobell’s report on the energy services industry, please contact your William Blair representative. Visit williamblair.com/ResearchCoverage for important disclosure information and a full list of the more than 550 growth companies covered by William Blair’s equity research analysts.

Tax Planning to Prepare for 2013's Uncertainty



With significant changes to tax rates scheduled to take place on January 1, the outcome of November's elections will have a major impact on the future of U.S. tax policy. Here is a look at year-end strategies to help you prepare for the evolving tax landscape.

Each year new words or phrases make their way into the popular lexicon. A strong contender for 2012 Phrase of the Year is "fiscal cliff."

The fiscal cliff comprises two events that are scheduled to occur on January 1, 2013: the expiration of the Bush-era tax cuts and the approximate \$100 billion automatic spending cuts that will be triggered if Congress does not reach a debt-reduction agreement before then.

While it may be well into 2013 before we gain any clarity about what a "grand bargain" on reducing the federal deficit might look like, the future of tax rates—or at least portions of it—may come into focus after the November 6 elections and during the ensuing lame-duck session of Congress.

At a recent event hosted by William Blair & Company, Julie Alcalá, a senior financial planning advisor at William Blair, and Bart Massey, a tax-policy specialist in Deloitte's Washington National Tax office, discussed the potential tax scenarios that could emerge and year-end planning opportunities created by these changes.

What's in Play

The expiration of the Bush-era tax cuts would cause wide-ranging increases to income and wealth-transfer tax rates. (See table on page 6.) Whether these tax cuts are allowed to

expire depends on the outcome of the presidential election and the actions of Congress during the lame-duck session.

Neither party wants tax rates to increase for low- and middle-income taxpayers, so the debate on the campaign trail and in Congress centers on tax rates for wealthy Americans, said Massey, formerly an editor and reporter with *Tax Notes*, a national journal on federal tax policy.

President Obama's proposals include the following tax increases for high-income taxpayers: increasing the top marginal tax rate on ordinary income to 39.6%; increasing the rate on long-term capital gains from 15% to 20%; increasing the rate on qualified dividends from 15% to 39.6%; and scaling back the tax benefit provided by itemized deductions. He is also proposing returning to the 2009 structure for the estate and gift taxes: a \$3.5 million exemption amount and a top rate of 45%.

Governor Mitt Romney's proposal includes lowering marginal tax rates for all individual taxpayers; keeping the tax for long-term capital gains and qualified dividends at 15% for high-income taxpayers and eliminating both taxes for households earning less than \$200,000; and repealing the estate and gift taxes.

But Massey explained that Romney's proposal to cut tax rates would not necessarily result in a lower tax bill for wealthy Americans. Romney's tax reforms would be "revenue-neutral," meaning that the lower rates would be made up for by eliminating yet-to-be-specified tax credits and deductions. Romney has also said that high-income taxpayers would still have the same overall tax burden under his reform plan.

"The Romney tax plan will modify or eliminate some tax benefits to pay for the reductions in tax rates," Massey said, adding that it means not all taxpayers with roughly the same income will be similarly affected.

Possible Outcomes

Massey said a status quo outcome in November's elections, in which Obama is reelected and the Democrats' margin in the Senate and the Republicans' margin in the House



INCOME AND WEALTH-TRANSFER TAX RATES

	2012	2013 <i>(if Bush-era tax cuts expire)</i>
Marginal Tax Rates	Range from 10% to 35%	Range from 15% to 39.6%*
Long-term Capital Gains	15%	20%**
Qualified Dividends	15%	Taxpayer's marginal tax rate**
Estate and Gift Tax	35% top rate and \$5.12 million exemption amount	55% top rate and \$1 million exemption amount

* Plus 0.9% Medicare tax on earned income for couples making >\$250,000 and individuals making >\$200,000

** Plus 3.8% Medicare surtax for couples making >\$250,000 and individuals making >\$200,000

are maintained, could increase the likelihood of Congress taking action on the impending tax cuts before the January 1 deadline.

The range of outcomes that could emerge from that lame-duck session include allowing all the tax cuts to expire; temporarily extending the tax cuts, as Congress did when faced with a similar situation two years ago; or extending some of the tax cuts while slightly increasing the burden on high-income taxpayers.

Year-End Planning Opportunities

While the magnitude and scope of tax changes for 2013 is very much undecided, one thing is certain: tax rates will not be going down for high-income taxpayers.

Even if all of the Bush-era tax cuts get extended, couples earning more than \$250,000 or individuals earning more than \$200,000 will be hit with a 0.9% Medicare tax on earned income (such as wages and bonuses) and a 3.8% Medicare surtax on dividends, capital gains, interest, rents, and other investment income. These taxes were created to help pay for the healthcare reforms passed through 2010's Patient Protection and Affordable Care Act.

In addition, Massey said Congress seems poised to allow the 2% payroll tax cut that was passed in 2010 to expire at the end of 2012.

"The typical recommendation for year-end planning is to accelerate deductions and defer income," Alcalá said. "But we are in a position where we are reversing that thinking a bit in 2012."

For charitable contributions, real estate and state and local taxes, and other potential deductions where taxpayers have some control over the timing of the payment, taxpayers may want to consider delaying payment until after January 1, said Alcalá. She offered the caveat, however, that 2013 may see the return of phase-outs for itemized deductions.

Investors considering converting a traditional IRA to a Roth IRA may want to execute the conversion before January 1, when the 3.8% Medicare surtax on investment income kicks in. With the long-term capital gains rate set to increase, investors with embedded capital gains in their portfolios may want to consider harvesting some of those gains in 2012.

Perhaps the most powerful planning opportunity involves the potential changes to the estate and gift taxes. With the likelihood of the exemption amounts decreasing from the current \$5.12 million to \$3.5 million or even \$1 million, taxpayers may want to seriously consider taking this opportunity to reduce the size of their estates.

"This is absolutely the time to consider doing that," Alcalá said. "Again, we're probably not going to see this [estate tax framework] in this exact fashion for a very long time."

For more information about 2012 year-end tax planning strategies, visit williamblair.com/PWM-resources. You can download a copy of our white paper "Year-End Tax Planning for 2013's Uncertainty" or listen to a webinar on the same topic.

This information has been prepared for informational purposes and is not intended to provide, or should not be relied on for, accounting, legal, tax, or investment advice. Please consult with your tax and/or legal advisor regarding your individual circumstances.

Past performance does not guarantee future results. This is not in any sense a solicitation or offer of the purchase or sale of securities. The factual statements herein have been taken from sources we believe to be reliable, but such statements are made without any representation as to accuracy or completeness or otherwise. Opinions expressed herein are our own unless otherwise stated and are current opinions as of the date appearing in this material only. These materials are subject to change without notice. From time to time, William Blair & Company, L.L.C. or its affiliates may buy and sell the securities referred to herein, may make a market therein, and may have long or short position therein. Prices shown are approximate. This material has been approved for distribution in the United Kingdom by William Blair International, Limited, regulated by the Financial Services Authority (FSA), and is directed at, and is only made available to, authorized persons and other persons falling within COB 3.2.5(1)(b) of the FSA handbook, and may not be passed on to private customers.

William Blair & Company and the script logo *William Blair* are registered trademarks of William Blair & Company, L.L.C. William Blair & Company Client Focus ©2012, William Blair & Company, L.L.C. All rights reserved.
Member FINRA • Member SIPC

Top 5 Tips for Protecting Your Email Account

Cybercriminals are increasingly targeting personal e-mail accounts as a way to commit identity theft. Fortunately, there are simple steps you can take to protect your personal e-mail account from being hacked:

- **Use a strong password and change it regularly:**
A password should be at least eight characters and contain a combination of letters, numbers, and symbols, as well as both uppercase and lowercase characters.
- **Use unique passwords for each account:**
If you use the same password across all of your e-mail and other online accounts and one of the accounts gets broken into, then all of your accounts could be compromised. If you have a list to help you keep track of all your different passwords, store it in a safe place away from your computer.
- **Check your account for suspicious activity:**
Regularly check your “sent” mail and “trash” folders; this can help you see if a hacker has been sending e-mails on your behalf. Many e-mail and social networking sites also allow you to view the time and physical location of recent logins to your account. Reviewing this list can help you spot any unauthorized logins.

- **Limit the personal information you put on Facebook:**
Be cautious about how much personal information you put on Facebook or other social networking sites. Sharing all of this information online could help a hacker commit identity theft.
- **Remember to log out when using public computers:**
Never use the “stay logged in at this computer” feature when using a public computer. Also, you should always actively sign out of your account whenever you are using a public computer or one that is used by people you do not want having access to your e-mail account.

If you think your e-mail account may have been hacked, you should immediately reset your password. Also, please contact your William Blair & Company representative if you believe unauthorized e-mails may have been sent on your behalf or if you have been the victim of any other type of identity theft. The safety of your assets and your personal information is our highest priority, and we are working diligently to provide you with the highest level of security.