


**NIRI/FEI Seattle**  
September 11, 2008



NASDAQ OMX Economic & Statistical Research

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**Agenda**

- Washington public companies
- The uncertain state of the economy
- Trends in raising equity capital
- Watching out for the bears



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**Washington and NASDAQ**



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## Trends in raising capital

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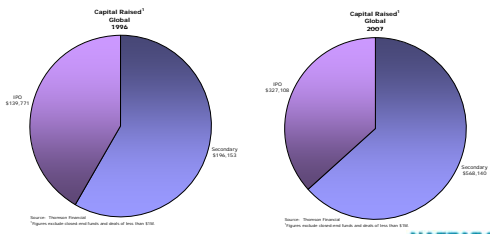
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## Capital raised - Global

- Capital raised more than doubled from 1996 to 2007.
- BRIC countries raised less than 10% of total capital in 1996 and 30% in 2007.
- In numbers, IPO deals fell 13% but the number of secondary offerings rose 139%.
- In the U.S., the number IPOs and secondary offerings fell 76% and 40%. U.S. capital raised was flat.



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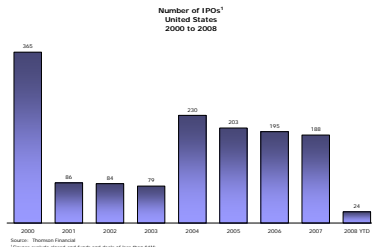
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## Trends in IPOs - US

- The US market has not experienced the growth in the global market observed since 2004.
- The compound annual growth rate of capital raised is -6.4% for 2000 to 2007.
- The average offering size has increased from \$175 million in 2000 to \$214 million in 2007.



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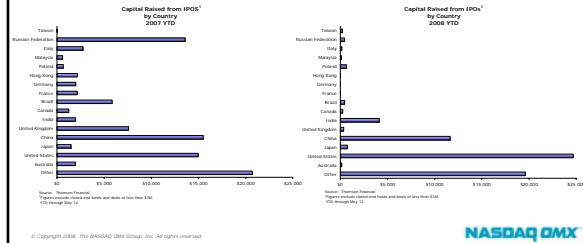
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## Recent trends in global IPOs - Capital

- Global capital raised was down 33% from \$95B to \$64B year-on-year while deals were larger on average.
- Of 35 countries with activity in both years, 11 exhibited year-on-year growth in average capital raised.



## Outlook

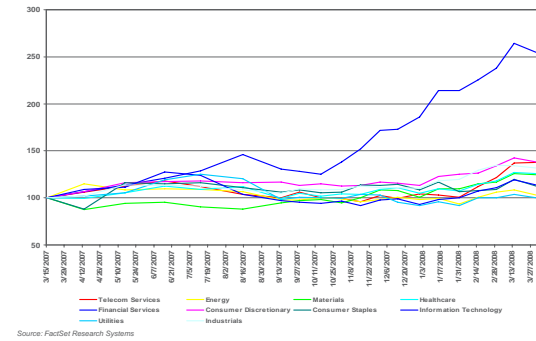
*It is difficult to make investment decisions about risk adjusted returns if you cannot measure risk.*

- Decision making requires assumptions about the cost of capital, cost of inputs, price for outputs, taxation, political risk and other factors. The more uncertainty in each of the elements of this calculus the less capital is available.
- Unprecedented levels of withdrawal and postponement of deals have been observed worldwide.
  - According to Dealogic, worldwide 83 companies withdrew and 24 postponed IPOs in Q1 2008.
  - Seasoned and stable companies have best maintained access to capital.
- The political landscape in the U.S. will not stabilize until late Q4 2008 or more likely Q1 2009. Until at least that time both market stability and economic stability will continue to be elusive.
- While technically a recession may be avoided due to boom times in certain sectors of the economy, many sectors will continue to face a recessionary environment.

## Watching out for the bears

### Short interest across market sectors

Short interest has risen over the past year, particularly in the financial services sector.

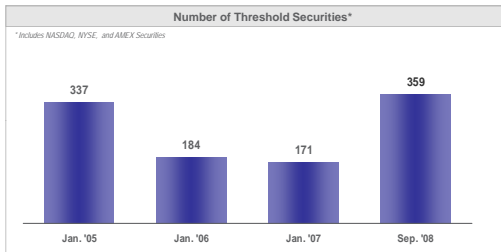


Source: FactSet Research Systems

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### Threshold securities and naked short selling

Stocks with elevated levels of settlement failures, often associated with naked short selling, are placed on the SEC's 'Threshold List'.



\* Includes NASDAQ, NYSE, and AMEX Securities

A threshold security is any equity security of an issuer that is registered under Section 12, or that is required to file reports pursuant to Section 15(d) of the Exchange Act when, for 5 consecutive settlement days: (1) there are aggregate fails to deliver at a registered clearing agency of 50,000 shares or more per security; (2) the level of fails is equal to at least one-half of one percent of the issuer's total shares outstanding; and (3) the security is included on a list published by an SRO.

Source: nasdaqomx.com, nyse.com/threshold and amex.com. Data used 1/31/05, 1/31/06, 1/31/07, 12/31/07 and 9/10/08

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### Recent actions against naked short selling

The SEC continues to take incremental steps to eliminate naked short selling and protracted failures in the delivery process.

#### The Emergency Order

- In response to sharp declines in many financial stocks, the SEC issued an emergency order restricting short selling in 19 financial stocks.
- While the short term reaction of prices in financial shares was very positive the effect quickly wore off.

#### Proposal to eliminate the Option Market Maker Exemption

- Options market makers are currently exempt from being forced to 'Close Out' a naked short position.
- The SEC is considering a rule to eliminate this exemption.

#### Additional Rule Making

- Later this fall, the SEC is expected to offer new proposals related to naked short selling.

NASDAQ OMX Web Seminar Series: Short Selling – Trends, Regulatory Changes and Impact on Public Companies: <http://www.shareholder.com/NDCCG/MediaRegister.cfm?MediaID=31091>.

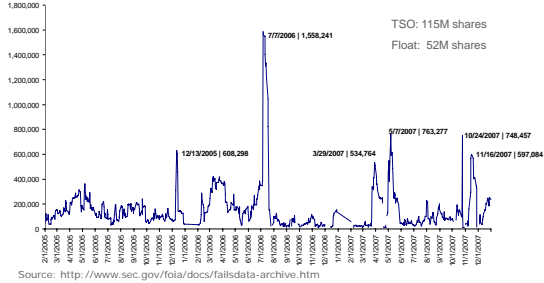
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### Do you have naked shorts?

The SEC has made available delayed data on settlement failures.

Example: Shares Failing to Deliver  
Feb 2005 - December 2007



Source: <http://www.sec.gov/foia/docs/failsdata-archive.htm>

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### Looking for trouble: Odd patterns at key times

The open and close are critical times of the day and often the focus of questionable behavior.



Note: Open/Close prices are from Nasdaq/NYSE open close data; VWAPs are from Bloomberg.

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