

Current State of Raising Capital in the Convertible Market

- The market for publicly-issued convertibles temporarily shut down at the end of Q3-2008.
- Privately and confidentially placed convertible securities continue to be executed on a selective basis.
- No public convertible deals have been priced since September 9th.
- Prior to September 9th, the public convertible market priced an average of 3 deals per week in 2008.
- The convertible market is the intersection of the debt, equity and options markets. The unprecedented volatility and lack of clarity in those markets has made it a difficult environment in which to price convertibles.
- Confidentially marketed and negotiated private convertible offerings continue to be completed. These transactions are announced publicly only after successful completion. RBC is currently executing private convertible offerings.
- Warren Buffett recently invested a total of \$8.0 billion in cumulative preferred stock with warrants (essentially convertible securities) issued by Goldman Sachs and General Electric. RBC is currently working with clients on similar structures.

Forecast

- The debt, equity and options markets need to show reduced volatility and increased predictability for the public convertible market to reopen.
- We do **not** think that the debt, equity and options markets need to recover for the convertible market to open again; rather, they just need to exhibit more normal volatility.
- The convertible market is typically one of the **first** markets to re-open for capital raises after a tumultuous market like the current one. We note that 2001, which was a terrible market for debt and equity markets was the largest year on record for U.S. public convertible offerings, with over \$100 billion raised.
- Convertible securities are a flexible product with various features including interest rate, conversion premium, call protection, preferred shares, bonds, mandatories, and various settlement structures. With all these features, the convertible product can be tailored to be an attractive source of low cost capital for companies of all industries and sizes in almost any market environment.
- Liquidity in the underlying common stocks needs to be adequate for convertible financing to again be an attractive instrument as a low cost of capital vehicle. The long term rules around trading and shorting common stocks need to be clarified to have a "normal" convertible market again.
- In the long run, increased equity volatility increases the value of the optionality of a convertible and therefore allows issuers to get even better pricing.
- Our prediction is that the convertible market will reopen before year-end. Please contact us if you have any interest in raising convertible capital privately or if you would like to be kept apprised of when the public convertible market re-opens; our contact information can be found at the end of this document.

Q3-2008 Convertible Review

- **3Q-2008 Global New Issuance Activity:** \$11.8 billion was raised via 51 transactions in Q3-2008, a 60.9% year-over-year decrease in convertible capital raised when compared with the \$30.2 billion raised via 172 transactions in Q3-2007. \$100.7 billion was raised via 294 transactions year-to-date through the end of 3Q-2008, a 24.7% year-over-year decrease in convertible capital raised when compared with the \$133.8 billion raised via 630 transactions through the end of Q3 in 2007.
- **3Q-2008 U.S. New Issuance Activity:** \$6.1 billion was raised via 13 transactions, a 50.4% decrease in capital raised when compared with the \$12.3 billion raised via 27 transactions in Q3-2007. 2008 through the end of Q3, \$58.8 billion was raised via 90 transactions, a 14.2% decline in capital raised when compared with the \$68.5 billion raised via 152 transactions in 2007 year-to-date through the end of Q3.
- **Small- and Mid-Caps Dominate Issuance:** 30% of U.S. convertible issuers had market capitalizations under \$1 billion; 49% were under \$2 billion; 79% were under \$5 billion; and 21% had market capitalizations greater than \$5 billion in 2008 year-to-date through the end of Q3.
- **New Issuance by Industry:** Convertible capital raised in Q3 2008, by industry, was as follows: Financial Services (17.0%); Communications, Media & Entertainment (15.2%); Healthcare (14.2%); Consumer (14.1%); Technology (13.2%); Real Estate / REITs (12.3%); Mining (11.3%); and Diversified / Industrials (2.8%).
- **77% of Issuers Non-Investment Grade or Unrated:** The majority of convertible issuers in Q3-2008 did not have an investment-grade rating.
- **Median Convertible Terms:** The median coupon during the quarter was 3.750% and the median conversion premium above current market price at offering was 27.5%.
- **We note the most prominent use of proceeds during the quarter were common stock repurchase simultaneous with the convertible offering and replacement of more expensive debt.**

Capital Raised by Offering Type:

Offering Type:	Q3 2008			2008 YTD through Q3		
	Amount (Mln)	% of Total	No. of Offerings	Amount (Mln)	% of Total	No. of Offerings
Equity Follow-On:	\$45.0	72.0%	69	\$108.4	52.3%	229
High-Yield Debt:	\$11.4	18.2%	19	\$40.1	19.4%	82
Convertible Debt:	\$6.1	9.8%	13	\$58.8	28.4%	90
Total	\$62.4	100.0%	101	\$207.3	100.0%	401

Q3-2008 Public U.S. Convertible Offerings:

Issuer	Sector	Pricing Date	Mkt Cap	Deal Size	Deal Size / Market Cap	Coupon	Premium	Maturity	Non Call Period	Put Schedule	Capital
SMITHFIELD FOODS	Consumer	01-Jul-08	\$2,265	\$400	17.7%	4.000%	30.00%	5 Yrs	Life	None	SENIOR
ALLIANCE DATA SYSTEMS	Technology	24-Jul-08	\$5,087	\$805	15.8%	1.750%	22.50%	5 Yrs	Life	None	SENIOR UNSECURED
XM SATELLITE RADIO	CME	29-Jul-08	\$2,611	\$550	21.1%	7.000%	25.00%	6 Yrs	Life	None	SR. SUB. EXCHANGE.
XL CAPITAL	Financial	29-Jul-08	\$5,578	\$575	10.3%	10.750%	18.00%	3 Yrs	Life	None	MANDATORY
PSS WORLD MEDICAL	Healthcare	29-Jul-08	\$1,040	\$230	22.1%	3.125%	27.50%	6 Yrs	Life	None	SENIOR
AFFILIATED MANAGERS GROUP	Financial	30-Jul-08	\$3,537	\$460	13.0%	3.950%	40.00%	30 Yrs	NC-5	5,10,15,20,25	SENIOR
MASSEY ENERGY	Mining	06-Aug-08	\$4,968	\$690	13.9%	3.250%	42.50%	7 Yrs	Life	None	SENIOR
RADIOSHACK	CME	12-Aug-08	\$2,270	\$375	16.5%	2.500%	32.50%	5 Yrs	Life	None	SENIOR
FERRO	Diversified	13-Aug-08	\$940	\$173	18.3%	6.500%	60.00%	5 Yrs	Life	None	SENIOR
BOSTON PROPERTIES	Real Estate	14-Aug-08	\$11,698	\$748	6.4%	3.625%	20.00%	6 Yrs	Life	None	SR. EXCHANGEABLE
SALIX PHARMACEUTICALS	Healthcare	18-Aug-08	\$341	\$60	17.6%	5.500%	20.00%	20 Yrs	NC-5	None	SENIOR
TYSON FOODS	Consumer	09-Sep-08	\$4,749	\$458	9.6%	3.250%	32.50%	5 Yrs	Life	None	SENIOR
MYLAN	Healthcare	09-Sep-08	\$3,519	\$575	16.3%	3.750%	20.00%	7 Yrs	Life	None	SR. UNSECURED
Mean			\$3,739	\$469	15.3%	4.535%	30.04%				
Median			\$3,519	\$460	16.3%	3.750%	27.50%				

For more information on raising capital through convertible securities, please contact Patrick Prendergast, Aura Reinhard or John Schaffer of the RBC Convertible Securities Department:

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