

October 2008 Convertible Update

Public Convertible Market Closed, Private Market Opening

- There was no convertible capital raised in the public markets in October.
- A small number of privately negotiated deals with a small number of buyers were executed. Please see next page.
- Many convertible buyers are being forced to sell securities because their lenders are demanding that they take down their leverage and because they have experienced withdraws from their funds.
- We believe that de-leveraging is the biggest reason for the sell-off in convertibles (as well as stocks and bonds) and that we are nearing the end of this widespread de-leveraging process.
- We hope to see the market for public convertible offerings re-open before year-end. We expect that the first few transactions would be executed by multi-billion dollar market-capitalized companies.

Our Observations and Thoughts on Where We Go From Here

- Over the last week we have observed that the selling pressure has started to wane and that convertible buyers are beginning to re-enter the secondary market. We believe this signifies the beginning of the “healing process” for the convertible market.
- Convertible buyers, like investors in most other asset classes, have seen losses in most of the securities they have purchased in the last 24 months.
- We expect the convertible market as a whole will re-open after the successful execution (most likely by multi-billion dollar market-capitalized companies) of one or more new offerings that hold price or trade up in the after market.
- If the stock / bond markets hold or increase from their late October / early November rally and no larger-cap companies tap the convertible market, we expect some smaller companies may move forward.

Convertible Market Could Be One of the First Markets to Reopen

- If history repeats itself, the convertible market will likely be one of the first public markets to re-open after the recent drought of new capital raised in equity and bond markets.
- Because of the convertible product’s flexibility in structures that range from debt-like to very equity-like, offerings can be tailored to meet the needs of both corporations and investors in most markets. As a result, the convertible capital markets have historically been successful coming out of downturns.
- Convertible investors come from the debt, equity and dedicated convertible markets. Thus, convertible capital raises are not dependent on just one pool of capital, which is important in challenging markets.
- Whole Foods Market and Morgan Stanley recently raised capital via private offerings of convertible securities. The recent capital raises for General Electric and Goldman Sachs, as well as the Federal TARP structure, were preferred stock with warrants – essentially a convertible security.

Every company and situation is unique. If you would like to inquire about what you can achieve in the convertible market, please contact us at the information on the last page. We welcome the opportunity to share our 20+ years of experience of successfully executing convertible capital raises with you.

Private Convertible Offerings – October 2008

Ticker	Issuer	Sector	Pricing Date	Mkt Cap (Mln)	Issue Size (Mln)	Coupon	Conversion Premium / Discount	Maturity	Offering Type
DOW	Dow Chemical Company	Chemicals	27-Oct-08	\$22,070	\$4,000	8.500%	20.0%	Perpetual	Private
CTIC	Cell Therapeutics	Healthcare	21-Oct-08	\$6	\$15	9.660%	(17.4%)	3 Yrs	Private
ROX	Castle Brands	Consumer	21-Oct-08	\$4	\$15	NA	29.6%	Perpetual	Private
CDE	Coeur d'Alene Mines Corporation	Mining	20-Oct-08	\$513	\$41	> of L+7.5% or 12.0%	23.7%	4 Yrs	Private
HIG	Hartford Financial Services	Financial Services	17-Oct-08	\$8,695	\$750	NA	7.4%	Perpetual	Private
RRR	Reliant Energy	Utilities	13-Oct-08	\$1,070	\$350	14.000%	35.0%	Perpetual	Private
MS	Morgan Stanley	Financial Services	13-Oct-08	\$10,735	\$7,800	10.000%	160.9%	Perpetual	Private
GBL	GAMCO Investors	Financial Services	2-Oct-08	\$395	\$60	6.500%	29.5%	10 Yrs	Private
	Median			\$792	\$205	9.660%	26.6%		
	Mean			\$5,436	\$1,629	9.732%	36.1%		

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

Patrick Prendergast
Managing Director / Group Head
Convertible Securities Origination
Tel: 415-633-8535
E-mail: Patrick.Prendergast@rbccm.com

Aura Reinhard
Associate
Convertible Securities Origination
Tel: 415-633-8680
E-mail: Aura.Reinhard@rbccm.com

John Schaffer
Analyst
Convertible Securities Origination
Tel: 415-633-8687
E-mail: John.Schaffer@rbccm.com

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.