

Accounting & Tax Report

Chris Senyek, CFA, CPA

212 446 9491

csenyek@isigrp.com

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Net Operating Loss Carryforwards: Outlook & Analysis

Summary:

Based on our research, we estimate that public U.S. companies have accumulated over \$175 billion of tax loss carryforwards (“NOLs”) and tax credits available to offset future taxable income. These accumulated losses stem from significant up-front start-up costs, declining industry economics, and elevated stock option tax deductions from the dot.com bubble. As a result of the credit crisis and housing downturn, we expect aggregate NOL amounts to materially increase this year as previously written down land and financial assets are deducted on corporation’s tax returns (write-downs of financial assets and land are not generally deductible until the assets are sold). Additionally, possible legislation to extend the NOL carryback period from two years to four years may provide a cash windfall for certain companies. In light of these two developments and the possibility of increased strategic M&A (e.g., airlines), we thought it would be timely to analyze companies with tax NOLs/credits and review the tax rules.

From an investment perspective, NOLs may be an overlooked asset on (or off) a company’s balance sheet. In fact, companies with large NOLs and cash balances often appeal to value investors for their “hidden” asset value. As a screen for investment ideas, we searched for companies with large cash balances and tax NOLs/credits. In this report, we identify companies with large net cash balances and tax NOLs/credits — principally small and mid-capitalization companies.

Key Points:

- We highlight companies with large NOLs/tax credits. If company profitability recovers, NOLs may have value to the existing company or to another corporation acquiring the NOLs. We identify 363 companies with NOLs at least 5% or more of the company’s current market capitalization. By further narrowing this list, we identify 129 companies with NOLs and net cash balances (net of debt) equal to at least 25% of the company’s current market capitalization, mainly small and mid-cap companies. We list the companies and compare NOLs/tax credits to market capitalization in Appendix A at the end of this report.
- As part of a housing related bill, the Senate passed legislation that would allow companies a four year carryback of 2008 and 2009 tax losses compared to a two year carryback allowed under the existing tax rules. The House has passed their own housing bill which did NOT include the NOL carryback provision. The outlook for NOL legislation in any final legislation this year is still unclear. However, ISI’s Washington research team places the odds at 60% of a final housing bill

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being enacted this year with lower odds of a NOL provision in a final bill. Our research indicates that a four year carryback would provide a possible pool of tax refunds of over \$15 billion for the homebuilders (\$8 billion for public homebuilders) based on our analysis of cash taxes paid during 2004 and 2005. An extended NOL carryback won't likely provide an immediate cash windfall for companies based on existing NOLs on company balance sheets. Our review of company filings did not reveal a large number of companies with existing NOL carryforwards and large cash taxes paid during 2004 and 2005. If legislation is passed with the NOL provision, it may impact asset sale activity over the next 18 months so realized tax losses may be carried back to profitable years during 2004 and 2005.

- In the second half of this report, we review the tax rules for NOLs, including the impact of mergers and acquisitions on NOLs, and the relatively new "338 approach" which may materially increase the value of NOLs to an acquirer.

Homebuilders and Tax Losses: 2008 is the Pivotal Year

Surprisingly, to date, the publicly traded homebuilders have not accumulated large tax loss carryforwards. As shown in the table below, our research reveals only 4 out of 15 publicly traded homebuilders had NOL carryforwards as of their most recent fiscal year-end. *Unrealized* losses stemming from land related impairments are generally only tax deductible when the underlying land (or house) is sold. However, the publicly traded homebuilders have accumulated large deferred tax assets for their inventory impairments that may turn into NOLs when the land/home is sold. Given the current housing downturn, it is increasingly likely that certain homebuilders will report 2008 taxable losses. When a taxable loss occurs, a net operating loss carryforward ("NOL") will be created. For losses incurred during 2008, under the tax code, companies may carry the losses back two years for a refund of taxes paid in 2006 and 2007. However, in our view, at least part of the taxes paid during these years may have already been refunded for 2007 losses, depleting the available pool of cash tax refunds available. Therefore, absent legislation, NOLs generated during 2008 and 2009 may not provide an immediate cash windfall.

Homebuilders with Tax NOL Carryforwards (\$ in millions)

Company	Ticker	Market Cap	As of	Tax NOL Carryforwards	Deferred Tax Assets
Lennar Corp.	LEN	3,217	11/30/07	127	835
M/I Homes, Inc.	MHO	240	12/31/07	6	75
Standard Pacific Corp.	SPF	198	12/31/07	37	344
WCI Communities Inc.	WCI	83	12/31/07	39	219

Source: Company filings.

Financial Services Firms and Tax Losses: 2008 is the Pivotal Year

Just as the homebuilders began building NOL carryforwards during 2007, so too have certain companies in the financial services sector. In next table, we identify companies in the financials sector with net operating loss and tax credit carryforwards. Similarly, to date, financial asset write-downs have generally been

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unrealized losses and not yet deductible on companies' tax returns. In our view, we expect NOL balances to grow materially once large asset write-downs become *realized* losses. An extension of the NOL carryback to four years would provide a large pool of possible tax refunds emanating from taxes paid during 2004 and 2005.

Financials Sector with NOLs/ Tax Credits

(Sorted by NOLs and Tax Credits / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Market Cap.	NOLs & Tax Credits Deferred Tax Asset ⁽¹⁾	NOLs & Tax Credits / Market Cap.
INDYMAC BANCORP INC	IMB	155	547	353%
CONSECO INC	CNO	2,066	1,782	86%
E TRADE FINANCIAL CORP	ETFC	2,039	650	32%
CIT GROUP INC	CIT	3,454	972	28%
COUNTRYWIDE FINANCIAL CORP	CFC	2,882	532	18%
DOLLAR FINANCIAL CORP	DLLR	465	73	16%
LEUCADIA NATIONAL CORP	LUK	13,108	1,973	15%
DORAL FINANCIAL CORP	DRL	1,100	130	12%
PMI GROUP INC	PMI	482	55	11%
AMPAL-AMERICAN ISRAEL CORP	AMPL	329	35	11%
MERRILL LYNCH & CO INC	MER	48,133	4,552	9%
BGC PARTNERS, INC.	BGCP	488	34	7%
SOVEREIGN BANCORP INC	SOV	3,894	273	7%
MORGAN STANLEY	MS	52,269	1,729	3%
GENWORTH FINANCIAL INC	GNW	10,099	266	3%

(1) Includes federal, state & foreign net operating loss, tax credit carryforwards, and capitalized R&D, if available. NOLs/tax credits may be subject to certain annual use limitations per IRC Section 382.

Source: Company filings. FactSet.

Companies with NOLs

In our view, NOLs are a potential source of "hidden value." We have compiled a list of companies with large NOLs relative to their market capitalization by reviewing companies' annual report income tax footnotes (there is no easy method to "screen" for companies with NOL balances). We identify 363 companies with NOLs equal to 5% or more of the company's current market capitalization. We compare the NOL amount to a company's market capitalization to gauge materiality of the NOL amounts. To avoid companies with very high leverage levels and a low market capitalization, we narrow the list further to identify 129 companies with NOLs and net cash (net of debt) equal to at least 25% of the company's current market capitalization. Appendix A of this report lists all the identified companies along with their reported NOL amounts compared to their current market capitalization. Please contact us or your ISI salesperson for the full list in Excel. In reading through this information, there are several important points to keep in mind.

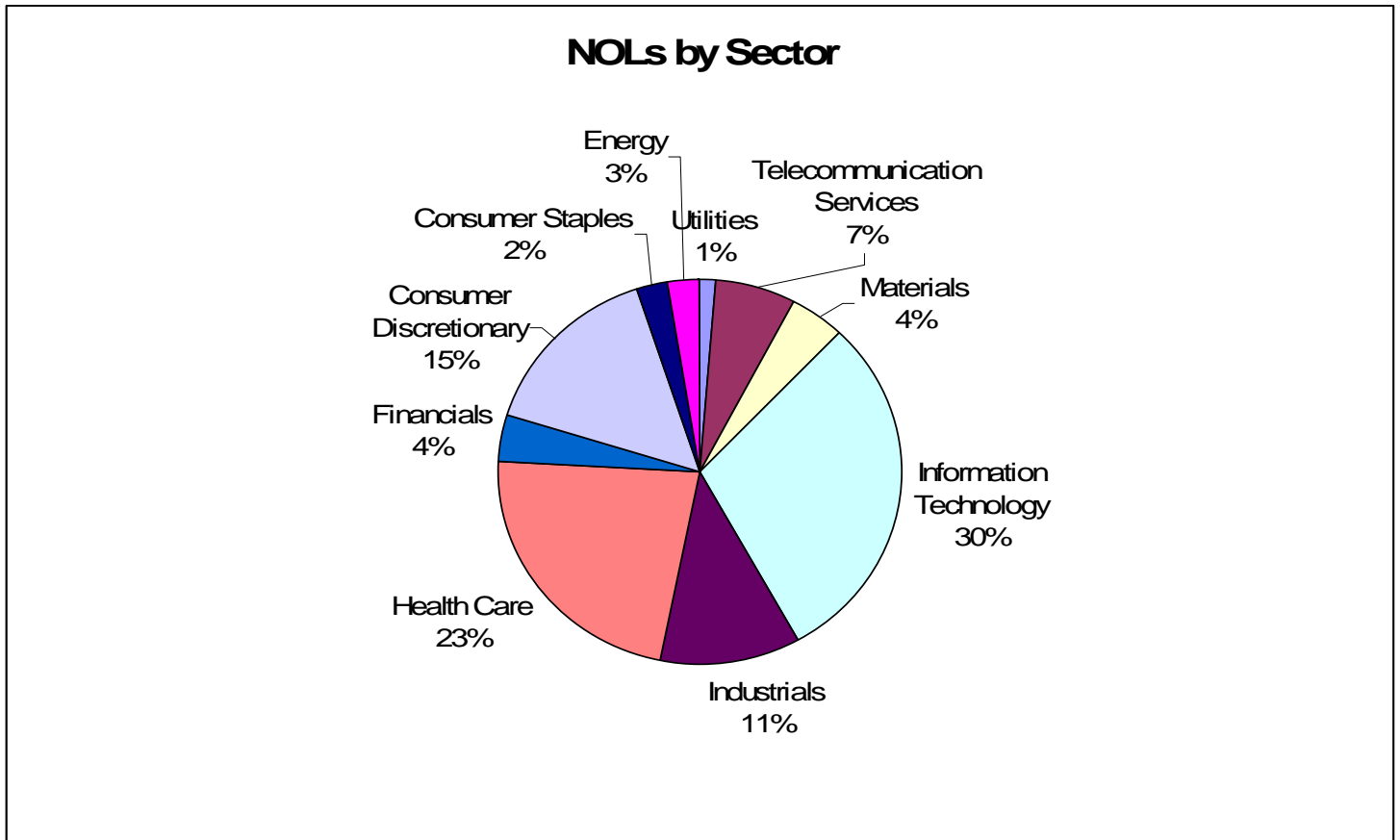
(1) The NOL/tax credit amount listed represents the company's deferred tax asset amount listed in the annual report footnotes and is the combined federal, state, foreign NOLs (if any), tax credits, and capitalized research and development costs. It is the tax-effected NOL amount. For example, \$1 of NOLs may be used to offset \$1 of pre-tax income. In this case, the deferred tax asset amount listed in the deferred tax asset table would be the \$1 NOL multiplied by the U.S. federal statutory income tax

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rate of 35% (or \$.35). The \$.35 may be used to offset taxes owed. Excluding an acquisition scenario, the NOL's deferred tax asset's "value" is likely lower since the deferred tax asset table amounts are not present valued based on expected utilization.

- (2) NOLs amounts listed in the narrative disclosures before or after the table of deferred tax assets and liabilities in the annual report footnotes usually represent the amount that may be used to offset *pre-tax* income and is not the NOL's value. The amounts we list in this report are from the company's most recent annual 10-K filing.
- (3) The NOLs listed are not "valued." Later in this report, we explain how to value NOLs. NOLs' actual value is predicated on whether, how much, and when they are used by the existing or another company.
- (4) Deferred tax assets amounts may be limited by IRC Section 382. Section 382 may substantially reduce the value of some NOL amounts listed in this report. In certain cases, this explains why NOL amounts are very high relative to a company's market capitalization. The NOLs may expire worthless or continued operating losses may force the company into a bankrupt reorganization/liquidation. In addition, the equity market may not currently be giving a company any credit for the NOL's value if the company is questionable as a going concern due to high leverage and/or a history of operating losses. We culled our list for companies with net cash and a high NOL/tax credit relative to market capitalization to eliminate unprofitable companies with high leverage.

By sector, health care and information technology sectors comprise over 50% of the companies with NOLs. This isn't surprising to us since cumulative losses are likely from either products under development or products that didn't develop. In addition, technology companies have still accumulated some large tax losses from stock option deductions during the dot.com bubble- nearly 8 years later!



The next table compares the largest absolute amounts of NOLs as of each company's most recent year-end. While certain companies have accumulated large NOLs due to company/industry specific factors, due to an Internal Revenue Code maximum NOL carryforward period of 20 years, these NOLs may never be utilized in some instances.

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Companies with Largest Dollar Amount of Tax NOLs and Tax Credits

(\$ in millions)

Company Name	Ticker	Market Cap.	NOLs & Tax Credits	NOL & Tax Credit /	Net Cash / (Debt)
			Deferred Tax Asset ⁽¹⁾	Market Cap.	as a % of Market Cap.
GENERAL MOTORS CORP	GM	11,708	14,148	121%	-176%
NORTEL NETWORKS CORP	NT	3,812	4,889	128%	-33%
MERRILL LYNCH & CO INC	MER	48,133	4,552	9%	-709%
DELTA AIR LINES INC /DE/	DAL	2,198	3,807	173%	-287%
LEVEL 3 COMMUNICATIONS INC	LVLT	5,509	3,713	67%	-114%
FORD MOTOR CO	F	18,183	3,264	18%	-1007%
UAL CORP /DE/	UAUA	1,737	2,755	159%	-276%
AMR CORP	AMR	2,288	2,682	117%	-262%
JDS UNIPHASE CORP /CA/	JDSU	2,712	2,498	92%	16%
CALPINE CORP	CPN	8,979	2,230	25%	-105%
TYCO ELECTRONICS LTD.	TEL	18,724	2,135	11%	-13%
SPRINT NEXTEL CORP	S	26,144	2,132	8%	-75%
LSI CORP	LSI	4,375	2,085	48%	12%
SUN MICROSYSTEMS, INC.	JAVA	10,492	2,024	19%	17%
LEUCADIA NATIONAL CORP	LUK	13,108	1,973	15%	NM
GLOBAL CROSSING LTD	GLBC	972	1,936	199%	-105%
XEROX CORP	XRX	12,956	1,905	15%	-58%
AMERICAN INTERNATIONAL GROUP INC	AIG	98,038	1,814	2%	NM
ADVANCED MICRO DEVICES INC	AMD	4,404	1,804	41%	-80%
CONSECO INC	CNO	2,066	1,782	86%	NM
MORGAN STANLEY	MS	52,269	1,729	3%	-637%
VISTEON CORP	VC	621	1,703	274%	-198%
FLEXTRONICS INTERNATIONAL LTD.	FLEX	8,937	1,642	18%	-19%
UNISYS CORP	UIS	1,535	1,598	104%	-37%
BROADCOM CORP	BRCM	14,785	1,519	10%	14%
MIRANT CORP	MIR	8,342	1,464	18%	23%
NORTHWEST AIRLINES CORP	NWA	2,066	1,453	70%	-163%
TYCO INTERNATIONAL LTD /BER/	TYC	22,241	1,433	6%	-15%
EL PASO CORP/DE	EP	14,384	1,428	10%	-85%
CONTINENTAL AIRLINES INC /DE/	CAL	1,774	1,384	78%	-115%
SIRIUS SATELLITE RADIO INC	SIRI	4,078	1,368	34%	-24%
OWENS CORNING	OC	3,668	1,271	35%	-55%
ABITIBIOWATER INC.	ABH	576	1,163	202%	-984%
MICRON TECHNOLOGY INC	MU	6,726	1,136	17%	-8%
3COM CORP	COMS	1,032	1,085	105%	13%
XM SATELLITE RADIO HOLDINGS INC	XMSR	3,805	1,066	28%	-38%
RITE AID CORP	RAD	2,027	1,058	52%	-288%
EASTMAN KODAK CO	EK	4,943	997	20%	12%
CIT GROUP INC	CIT	3,454	972	28%	NM
CIENA CORP	CIEN	2,921	960	33%	13%

NM: Not meaningful, in our view, for financial services firms due to industry characteristics.

(1) Includes federal, state & foreign net operating loss, tax credit carryforwards, and capitalized R&D, if available. Items may be subject to certain annual use limitations per IRC Section 382.

(2) Includes deferred tax asset amount for tax deductible goodwill.

Source: Company filings.

In the next two tables, we compare (i) NOLs to market capitalization to standardized NOLs across companies and (ii) NOLs plus net cash (net of debt) relative to company's market capitalizations.

Companies with Largest Tax NOLs and Tax Credits Relative to Market Capitalization

(\$ in millions)

Company Name	Ticker	Market Cap.	NOLs & Tax Credits Deferred Tax Asset ⁽¹⁾	NOLs & Tax Credits / Market Cap.	NOLs & Tax Credits / Market Cap.+ Debt
INDYMAC BANCORP INC	IMB	155	547	353%	NM
I2 TECHNOLOGIES INC	ITWO	236	728	309%	227%
VISTEON CORP	VC	621	1,703	274%	49%
IDT CORP	IDT	271	555	205%	141%
ABITIBIBOWATER INC.	ABH	576	1,163	202%	18%
GLOBAL CROSSING LTD	GLBC	972	1,936	199%	82%
BROADVISION INC	BVSN	117	215	184%	184%
DELTA AIR LINES INC /DE/	DAL	2,198	3,807	173%	34%
MEDIACOM COMMUNICATIONS CORP	MCCC	530	908	171%	24%
UAL CORP /DE/	UAUA	1,737	2,755	159%	27%
SPECTRUM BRANDS, INC.	SPC	236	355	150%	13%
COVAD COMMUNICATIONS GROUP INC	DVW	302	411	136%	85%
NORTEL NETWORKS CORP	NT	3,812	4,889	128%	59%
RCN CORP /DE/	RCNI	461	560	121%	47%
GENERAL MOTORS CORP	GM	11,708	14,148	121%	25%
AMR CORP	AMR	2,288	2,682	117%	20%
CROWN MEDIA HOLDINGS INC	CRWN	528	617	117%	39%
MANNKIND CORP	MNKD	297	344	116%	84%
VONAGE HOLDINGS CORP	VG	286	328	115%	40%
3COM CORP	COMS	1,032	1,085	105%	79%
UNISYS CORP	UIS	1,535	1,598	104%	61%
TERRESTAR CORP	TSTR	436	430	99%	44%
VIGNETTE CORP	VIGN	324	302	93%	93%
JDS UNIPHASE CORP /CA/	JDSU	2,712	2,498	92%	76%
INFOSPACE INC	INSP	334	298	89%	89%
BORLAND SOFTWARE CORP	BORL	112	100	89%	32%
REVLON INC /DE/	REV	461	401	87%	21%
BEARINGPOINT INC	BE	331	288	87%	22%
HUMAN GENOME SCIENCES INC	HGSI	806	695	86%	45%
CONSECO INC	CNO	2,066	1,782	86%	NM
APPLIED MICRO CIRCUITS CORP	AMCC	584	484	83%	83%
ENTRUST INC	ENTU	165	129	78%	78%
CONTINENTAL AIRLINES INC /DE/	CAL	1,774	1,384	78%	20%
FIBERTOWER CORP	FTWR	250	193	77%	29%
XOMA LTD /DE/	XOMA	267	195	73%	63%
NEKTAR THERAPEUTICS	NKTR	429	312	73%	41%
PLUG POWER INC	PLUG	278	202	72%	71%
CELL GENESYS INC	CEGE	296	214	72%	44%
VIRGIN MOBILE USA, INC.	VM	183	132	72%	27%
NORTHWEST AIRLINES CORP	NWA	2,066	1,453	70%	16%
SANMINA-SCI CORP	SANM	860	598	70%	25%
QUANTUM CORP /DE/	QTM	407	279	69%	30%
LEVEL 3 COMMUNICATIONS INC	LVLT	5,509	3,713	67%	30%
BOWATER INC	BOW	576	379	66%	6%
ARIBA INC	ARBA	1,087	696	64%	64%

(1) Includes federal, state & foreign net operating loss, tax credit carryforwards, and capitalized R&D, if available. Items may be subject to certain annual use limitations per IRC Section 382.

NM: Not meaningful, in our view, for financial services firms due to industry characteristics.

Source: Company filings.

Companies with Largest Combined NOLs / Tax Credits and Cash Balances (Net of Debt)

(\$ in millions)

Company Name	Ticker	Market Cap.	NOLs & Tax Credits / Market Cap. ⁽¹⁾	Net Cash (Debt) / Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
I2 TECHNOLOGIES INC	ITWO	236	309%	23%	332%
IDT CORP	IDT	271	205%	59%	264%
BROADVISION INC	BVSN	117	184%	49%	233%
MANNKIND CORP	MNKD	297	116%	53%	169%
INFOSPACE INC	INSP	334	89%	57%	146%
VIGNETTE CORP	VIGN	324	93%	50%	143%
LORAL SPACE & COMMUNICATIONS INC.	LORL	441	51%	83%	134%
TRANSMETA CORP	TMTA	177	42%	90%	132%
ADOLOR CORP	ADLR	233	64%	67%	130%
PLUG POWER INC	PLUG	278	72%	51%	124%
3COM CORP	COMS	1,032	105%	13%	118%
ADAPTEC INC	ADPT	378	18%	99%	117%
GERON CORP	GERN	323	54%	61%	115%
SYCAMORE NETWORKS INC	SCMR	956	30%	82%	112%
JDS UNIPHASE CORP /CA/	JDSU	2,712	92%	16%	108%
APPLIED MICRO CIRCUITS CORP	AMCC	584	83%	24%	107%
LEXICON PHARMACEUTICALS, INC./DE	LXRX	278	51%	50%	101%
COVAD COMMUNICATIONS GROUP INC	DVW	302	136%	-36%	100%
OPNEXT INC	OPXT	350	47%	52%	99%
SYNTA PHARMACEUTICALS CORP	SNTA	229	49%	48%	98%
NORTEL NETWORKS CORP	NT	3,812	128%	-33%	95%
GLOBAL CROSSING LTD	GLBC	972	199%	-105%	94%
ENTRUST INC	ENTU	165	78%	14%	92%
NEKTAR THERAPEUTICS	NKTR	429	73%	17%	90%
OPENTV CORP	OPTV	211	37%	45%	82%
INTERNAP NETWORK SERVICES CORP	INAP	244	63%	17%	80%
CIRRUS LOGIC INC	CRUS	551	45%	34%	79%
MEDQUIST INC	MEDQ	272	14%	59%	74%
VISTEON CORP	VC	621	274%	-198%	76%
MOVE INC	MOVE	439	62%	11%	73%
MRV COMMUNICATIONS INC	MRVC	266	52%	19%	72%
ARIBA INC	ARBA	1,087	64%	7%	71%
STAMPS.COM INC	STMP	269	36%	34%	69%
QLT INC/BC	QLTI	282	43%	25%	68%
NOVELL INC	NOVL	2,349	16%	52%	68%
JAZZ PHARMACEUTICALS INC	JAZZ	196	54%	13%	67%
UNISYS CORP	UIS	1,535	104%	-37%	67%
TECUMSEH PRODUCTS CO	TECUA	662	43%	22%	66%
AVANEX CORP	AVNX	237	42%	23%	65%
VIROPHARMA INC	VPHM	632	9%	55%	65%
XOMA LTD /DE/	XOMA	267	73%	-9%	65%
EXELIXIS INC	EXEL	667	46%	17%	63%
ACADIA PHARMACEUTICALS INC	ACAD	307	28%	34%	63%
BORLAND SOFTWARE CORP	BORL	112	89%	-26%	62%
OREXIGEN THERAPEUTICS, INC.	OREX	279	16%	45%	61%
UTSTARCOM INC	UTSI	622	30%	30%	60%
HYPERCOM CORP	HYC	252	21%	39%	60%
HLTH CORP	HLTH	2,145	24%	36%	60%
LSI CORP	LSI	4,375 (2)	48%	12%	60%
INTERNET BRANDS, INC.	INET	283	25%	34%	59%
IOMEGA CORP	IOM	213	27%	30%	57%
LIGAND PHARMACEUTICALS INC	LGND	353	32%	25%	57%
THE STREET COM	TSCM	238	22%	34%	56%
CLINICAL DATA INC	CLDA	394	38%	18%	56%
IOMEGA CORP	IOM	213	26%	30%	56%
MEDAREX INC	MEDX	1,061	24%	30%	54%
EXTREME NETWORKS INC	EXTR	415	24%	29%	53%

TTM= trailing twelve months.

(1) Includes federal, state & foreign net operating loss, tax credit carryforwards, and capitalized R&D, if available. NOLs/credits may be subject to certain annual use limitations per IRC Section 382, which could significantly reduced their realizable value.

(2) Includes deferred tax asset amount for tax deductible goodwill.

Source: FactSet. Company filings.

Overview of the Tax Rules of Net Operating Losses:

To assist investors in analyzing companies with tax net operating losses, in the remaining sections of this report, we discuss the tax rules for net operating loss carryforwards, NOLs and acquisitions, and valuing a company with NOLs. This discussion is a general overview and each company's specific circumstances may change this information.

In the table below, we highlight some common NOLs and tax credits for corporations along with their expiration periods. Under the Internal Revenue Code (IRC), a company that generates a U.S. federal taxable loss in its current fiscal year is permitted to carryback the loss 2 years and carryforward the loss 20 years (a company may elect to only carry the loss forward). Generally, NOLs and tax credits may only be used to offset income in the same country/state where they arose. NOLs may also be used to offset a capital gain on the sale of assets.

The value of NOLs depends on the tax rate in the country/state and time of utilization. To illustrate, the value of a U.S. federal NOL is 35% of the gross NOL amount. That is, a \$1 of NOLs is equivalent to taxes saved of \$.35 today. Similarly, the value of a state NOL is 5-10% of its gross NOL amount depending on the specific state in which the NOL is generated. On the other hand, tax *credits* such as the alternative minimum and foreign tax credits are *credits* and they reduce taxes owed dollar-for-dollar. A \$1 tax credit today is equivalent to taxes saved of \$1 today.

NOL and Tax Credit Expiration Periods

U.S. Federal NOLs:	2 year carryback and 20 year carryforward (losses are carried back to the earliest period first)
U.S. State NOLs:	Varies by state, often 10-20 years; in some states, no carryback
U.S. Capital losses:	3 year carryback and 5 year carryforward; may offset only against capital gains
U.S. Alternative Minimum Tax Credit:	Indefinitely
U.S. Foreign Tax Credits:	10 years (generally)
Foreign NOLs:	Varies by jurisdiction; may be carried forward indefinitely in certain countries

Source: ISI Accounting & Tax Policy Research. Internal Revenue Code.

NOLs and Mergers & Acquisitions: Anti-Trafficking of NOLs- Section 382 Limitations

Over the years, we have found that it is not uncommon to run across a company with a market capitalization that is below the company's net cash and NOLs balances. The annual use of an acquired company's NOLs may be limited due to Internal Revenue Code Section 382. Lawmakers enacted Section 382 to prevent so-called trafficking in NOLs- purchasing a company for its NOL value, thereby reducing the acquiring company's taxes owed. Absent any restrictions, a "NOL-rich" company might be appealing to an acquirer. Subsequently, the acquiring corporation (who is profitable) might use the acquired NOLs to immediately reduce their taxes owed. Section 382 effectively disallows these types of situations.

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IRC Section 382 prevents the trafficking of NOLs if there has been an “ownership change” in the corporation. Under IRC Section 382, an ownership change occurs when there has been a more than 50% change in ownership of a company within any three-year period.

Under the IRC, an ownership change occurs when:

- (a) the percentage of stock of the corporation owned by one or more 5% shareholders has increased by more than 50 percentage points over,
- (b) the lowest percentage of stock owned by the 5% shareholder during the prior three-year period (prior to the ownership change)

For purposes of the ownership change test, each 5% or more shareholder is tested individually. Typically, all less than 5% shareholders are aggregated and treated as one 5% shareholder under the so-called aggregation rules. In a merger, there is usually a change in ownership as defined above in at least one corporations.

If there has been an ownership change, IRC Section 382 places a ceiling on the annual amount of NOLs that may be annually used to offset taxable income of the corporations. The limitation amount is formulaic. Specifically, the annual Section 382 limitation amount is calculated as the acquired company’s common and straight preferred equity value immediately prior to the ownership change multiplied by the monthly long-term tax exempt rate published by the Treasury (currently 4.71% for acquisitions occurring in May 2008). (the value of in-the-money options and warrants may also be included). The long-term tax exempt interest rate may be found at www.irs.gov/irb.

In the table below, we illustrate the IRC Section 382 calculation. Assume a company is acquired that has a \$1,000 market capitalization immediately prior to the ownership change (date of acquisition). The Section 382 annual limitation amount is calculated as the market capitalization of \$1,000 multiplied by the long-term tax exempt rate (4.71% currently) or approximately \$47. The calculated Section 382 amount is the maximum amount that is allowed to be used annually to offset taxable income in the years after the acquisition (as discussed later in this note, built-in gains and the “338 approach” may increase the Section 382 amount in certain years).

Illustration of IRC Section 382 Annual Limitation Amount

Equity Market Capitalization	1,000
x Long-Term Tax Exempt Rate	<u>4.71%</u>
= Annual IRC Section 382 Limitation:	47

Source: ISI Accounting & Tax Policy Research, Internal Revenue Code.

A Section 382 limitation combined with a maximum 20 year NOL carryforward period may limit the amount of NOLs available for use. In our view, this dynamic explains why our study identified companies with NOLs and net cash exceeding their current market capitalization. Additionally, Section 382 limitations may materially reduce company's NOLs due to unexpected/uncontrollable events. As an illustration of the reduction in NOLs due to IRC Section 382, **Exide Technologies** disclosed:

“As of March 31, 2007, the Company has net operating loss carry-forwards (“NOLs”) for U.S. and state income tax purposes of \$399 million...The company has determined that a Sec. 382 ownership change occurred during the fiscal year ending March 31, 2007...Had a Section 382 ownership change not occurred during the year, the company would have had U.S. and state NOLs available of \$1.5 billion.”

There are several other items to consider when analyzing a company with a material amount of NOLs. Below we highlight three NOL rule nuances in the context of Section 382 limitations:

- Second ownership changes: If another greater than 50% “ownership change” occurs, a company must re-calculate their Section 382 annual limitation amount based on the current long-term tax exempt rate multiplied by the change in control company's equity and preferred market value immediately prior to the second ownership change date (“second Section 382 limitation amount”). The new Section 382 amount then applies to any NOLs created after the first ownership change date. In addition, if the second Section 382 limitation amount is lower than the first Section 382 limitation amount, the company must use the lower of the two. If the second Section 382 limitation amount is higher than the first Section 382 amount, the company must continue to use first Section 382 limitation amount for NOLs existing as of the first ownership change date.
- Unused Section 382 amounts: In a given year, a company subject to a Section 382 limitation amount might only utilize a small amount of available NOLs to offset taxable income. Any unused annual Section 382 amounts may be used to offset losses in the subsequent year in addition to that year's Section 382 amounts. That is, the unused Section 382 amounts are cumulative. Continuing our prior example, assume a company experiences an ownership change resulting in an annual Section 382 limitation of \$47. In the current year, the company reports taxable income of \$20 and utilizes \$20 of existing NOLs to offset taxes owed. However, the full Section 382 amount of \$47 is not utilized. Accordingly, \$27 of the Section 382 amount remains ($\$47 - \20) and is carried forward to the subsequent year. This amount may be used in addition to the year's annual \$47 Section 382 limitation amount ($\$47 + \$21 = \$68$).
- Continuity of business requirement: The acquired business with NOLs must continue in existence during the 2 year period after the ownership change date. If there has been an ownership change, under Section 382(C) of the IRC, the Section 382 limitation amount is reduced to zero if the loss corporation does not continue the business of the old corporation at all times during the 2 year period after the change in ownership date.

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“Excess” Cash Reduces NOL Annual Use Amount

Another wrinkle in calculating the Section 382 amount occurs when a company has “substantial non-business assets” such as cash and marketable securities. A company is considered to have substantial nonbusiness assets if they constitute at least 1/3 of the company’s total asset value. A company with substantial nonbusiness assets calculates their Section 382 amount after reducing their equity market value amount (used in the Section 382 calculation) by the excess of the nonbusiness asset’s fair market value over the nonbusiness asset’s share of the company’s debt.

Continuing our prior example, let’s assume a company has assets with a value of \$500 and cash of \$300. Since cash represents at least 1/3 of the company’s total asset value, the company has substantial nonbusiness assets. To calculate the Section 382 amount, the equity market value of \$1,000 is reduced by the company’s cash balance of \$300 for an adjusted amount of \$700. In turn, the Section 382 annual limitation amount is calculated as \$700 multiplied by the long-term tax exempt rate (4.71% currently) or \$33 per year. In this scenario, substantial nonbusiness assets reduces the annual NOL use amount from \$47 to \$33. Note that the substantial nonbusiness asset rule does not change the *amount* of the NOLs that may be utilized by the acquiror. The lower ensuing Section 382 annual limitation amount may extend the number of years necessary to exhaust the NOLs, increasing the risk that some NOLs may expire worthless in light of a 20 year U.S. federal NOL carry forward period.

Illustration of IRC Section 382 Annual Limitation Amount- Substantial Nonbusiness Assets

Equity Market Capitalization	1,000
Less: Nonbusiness assets (cash)	<u>(300)</u>
Adjusted Equity Market Capitalization	700
x Long-Term Tax Exempt Rate	<u>4.71%</u>
= Annual IRC Section 382 Limitation:	33

Source: ISI Accounting & Tax Policy Research, Internal Revenue Code.

Valuing Net Operating Loss Carryforwards

In the table below, we review how to incorporate NOLs into company valuation.

Valuing NOLs

(1) Value the NOLs by projecting GAAP pre-tax income (as a proxy for IRS income since it's not disclosed). The next step is to estimate the amount of NOLs that will be used each year to offset pre-tax income keeping in mind any possible Section 382 limitations. The next step is to multiply the company's marginal tax rate by the NOL amounts used each year to offset pre-tax income. Finally, calculate the net present value of the tax effected NOL amounts at the company's weighted-average cost of capital. Calculating the present value of NOLs is no different than present valuing any other stream of cash flows. In this case, the cash flows are the cash tax savings.

(2) Tax effect the company's earnings at a normalized effective income tax rate assuming no NOLs. A normalized effective tax rate may be estimated by reviewing peer company's tax rates. The company's tax rate may be much lower than the U.S. statutory tax rate (35%) due to the existence of NOL carryforwards (foreign income may also materially lower the effective tax rate). To arrive at a target equity share price, multiply the company's expected P/E ratio by the tax-effected normalized earnings. In turn, add the NOL value per share to the calculated equity value per share. Similarly, in a discounted cash flow model, the NOL may be valued separately as per step 1 and then added to the calculated equity value (similar to how cash is incorporated into valuations).

Source: ISI Accounting & Tax Policy Research.

More Advanced Issues to Consider

The “338 Approach” May Increase the Value of Acquired NOLs

Under recent, but not well-understood, IRS Notice 2003-65, the calculated Section 382 annual limitation amount may be increased if a company elects to treat built-in-gains and losses under the so-called “338 Approach” (named after Section 338 of the IRC). The notice is a safe harbor for calculating built-in-gains and losses. We generally believe companies will use this approach if it results in a higher NOL value. The 338 Approach raises the possibility of a faster utilization of the acquired NOLs during the first five years after an acquisition and, therefore, increases NOLs' value to an acquirer. In certain circumstances, the use of this Notice to calculate the annual NOL use amount may double the value of acquired NOLs.

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The 338 Approach allows companies to increase the Section 382 annual limitation amount (during the first five years after the acquisition) by the hypothetical incremental annual depreciation and amortization expense that would have occurred under the IRC if the acquisition was an asset purchase.

The 338 Approach assumes a hypothetical asset purchase of the acquired company's assets to calculate the hypothetical incremental amortization and depreciation expense. For an asset purchase under the IRC, the acquired company's assets are marked to fair value, which typically results in a step-up in the asset's tax basis. Since many businesses are purchased for amounts in excess of the fair value of their net tangible assets for going concern or synergy value, incremental goodwill and intangible assets are created. Section 197 of the IRC allows qualifying goodwill and intangible assets to be expensed straight-line over 15 years.

In the table below, we illustrate an example of the 338 Approach. Assume that the acquired company's historical tax basis of goodwill and intangible assets is \$0. On the ownership change date, a mark of the acquired company's assets to fair value results in goodwill and intangible assets of \$500 and \$100, respectively. The 338 Approach is applied. Accordingly, the hypothetical tax amortization/depreciation is calculated using the asset's tax life (15 years for goodwill and intangibles). Using a 15 year life, the annual goodwill and intangible asset amortization is calculated as \$33 and \$7, respectively for a total of \$40. To determine the annual NOL utilization amount under the 338 Approach, this amount is then added to the calculated existing \$47 annual Section 382 limitation amount. This results in a total annual NOL use of \$87 during the first five years after the acquisition as compared to a \$47 annual NOL utilization without applying the 338 Approach. After year 5, the NOL utilization amount reverts back to the Section 382 limitation amount of \$47.

Illustration of the "338 Approach"

Asset	Asset's Fair Value	Asset's Historical Tax Basis	Asset Life	Hypothetical Annual Expense
Goodwill	500	0	15 years	33
Intangible Assets	100	0	15 years	7
Total hypothetical annual incremental amortization under 338 Approach				40
Section 382 limitation amount: in a prior table:				47
Total NOL use during first five 5 years after acquisition under 338 approach:				87

Source: ISI Accounting & Tax Policy Research, Internal Revenue Code.

Recognized Built-In Gains May Increase the Section 382 Limitation

A company's use of NOLs that are subject to Section 382 may be increased by certain built-in gains recognized within five years after the ownership change date. A built-in gain or loss is the difference between the asset's fair market value at the ownership change date relative to the asset's tax basis. The unrecognized gain or loss in the assets is termed a net unrealized built-in gain or loss (NUBIG/NUBIL). At the ownership change date, the acquired company calculates the fair market value of all its assets and compares them to their tax cost basis. The sum of the amounts results in either a net unrecognized built-in gain or loss. Typically, since many assets increase in value over time and due to the use of accelerated depreciation for tax purposes, unrealized built-in gains exist at the ownership change date. If an asset with an unrealized built-in gain (at the ownership change date) is subsequently sold within 5 years after the ownership change date, NOLs may be used to shield the gain up to the net unrecognized built-in gains amount that existed at the ownership change date.

To illustrate, let's continue our prior example in which \$47 of NOLs are available to offset taxable income each year. Assume that an asset has a fair market value of \$100 and a tax basis of \$20, resulting in an unrecognized built-in gain of \$80 at the ownership change date. The asset is sold 2 years after the ownership change date for \$100, resulting in an \$80 taxable gain. Under these tax rules, in general, an additional \$80 of NOLs may be utilized to offset the \$80 taxable gain in that year. Assuming there is \$47 of other taxable income, \$127 of NOLs may be used in Year 2 to offset taxable income (Section 382 limitation of \$47 + \$80 recognized built-in gain).

Though not common for large public corporations, for non-substantial recognized built-in gains or losses, there is a de minimus threshold that reduces the amount of net unrealized built-in gains/losses to zero.

Recognized Built-In Losses

On the other hand, a net unrecognized built-in loss may exist at the ownership change date. Certain net unrealized built-in losses recognized on assets sold within five years after the ownership change date are subject to the Section 382 annual limitation amount. That is, the annual Section 382 limitation serves as a ceiling amount of taxable income that may be offset by both recognized built-in losses and NOL carryforwards. Therefore, a large built-in loss recognized within five years after the ownership change date may only offset taxable income up to the annual Section 382 ceiling amount.

Appendix A

Appendix A. Companies with Tax NOLs, Tax Credits, and Net Cash

(Sorted by NOLs and Tax Credits + Net Cash / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Sector	Market Cap.	NOLs & Tax Credits / Market Cap.	Net Cash / (Debt) as a % of Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
I2 TECHNOLOGIES INC	ITWO	IT	236	309%	23%	332%
IDT CORP	IDT	Telecom Serv.	271	205%	59%	264%
BROADVISION INC	BVSN	IT	117	184%	49%	233%
MANKIND CORP	MNKD	Health Care	297	116%	53%	169%
INFOSPACE INC	INSP	IT	334	89%	57%	146%
VIGNETTE CORP	VIGN	IT	324	93%	50%	143%
LORAL SPACE & COMMUNICATIONS INC.	LORL	IT	441	51%	83%	134%
TRANSMETA CORP	TMTA	IT	177	42%	90%	132%
ADOLOR CORP	ADLR	Health Care	233	64%	67%	130%
PLUG POWER INC	PLUG	Industrials	278	72%	51%	124%
3COM CORP	COMS	IT	1,032	105%	13%	118%
ADAPTEC INC	ADPT	IT	378	18%	99%	117%
GERON CORP	GERN	Health Care	323	54%	61%	115%
SYCAMORE NETWORKS INC	SCMR	IT	956	30%	82%	112%
JDS UNIPHASE CORP /CA/	JDSU	IT	2,712	92%	16%	108%
APPLIED MICRO CIRCUITS CORP	AMCC	IT	584	83%	24%	107%
LEXICON PHARMACEUTICALS, INC./DE	LXRX	Health Care	278	51%	50%	101%
COVAD COMMUNICATIONS GROUP INC	DVW	Telecom Serv.	302	136%	-36%	100%
OPNEXT INC	OPXT	IT	350	47%	52%	99%
SYNTA PHARMACEUTICALS CORP	SNTA	Health Care	229	49%	48%	98%
NORTEL NETWORKS CORP	NT	IT	3,812	128%	-33%	95%
GLOBAL CROSSING LTD	GLBC	Telecom Serv.	972	199%	-105%	94%
ENTRUST INC	ENTU	IT	165	78%	14%	92%
NEKTAR THERAPEUTICS	NKTR	Health Care	429	73%	17%	90%
OPENTV CORP	OPTV	IT	211	37%	45%	82%
INTERNAP NETWORK SERVICES CORP	INAP	IT	244	63%	17%	80%
CIRRUS LOGIC INC	CRUS	IT	551	45%	34%	79%
VISTEON CORP	VC	Con. Disc.	621	274%	-198%	76%
MEDQUIST INC	MEDQ	IT	272	14%	59%	74%
MOVE INC	MOVE	IT	439	62%	11%	73%
MRV COMMUNICATIONS INC	MRVC	IT	266	52%	19%	72%
ARIBA INC	ARBA	IT	1,087	64%	7%	71%
STAMPS.COM INC	STMP	Con. Disc.	269	36%	34%	69%
QLT INC/BC	QLTI	Health Care	282	43%	25%	68%
NOVELL INC	NOVL	IT	2,349	16%	52%	68%
JAZZ PHARMACEUTICALS INC	JAZZ	Health Care	196	54%	13%	67%
UNISYS CORP	UIS	IT	1,535	104%	-37%	67%
TECUMSEH PRODUCTS CO	TECUA	Industrials	662	43%	22%	66%
AVANEX CORP	AVNX	IT	237	42%	23%	65%
VIROPHARMA INC	VPHM	Health Care	632	9%	55%	65%
XOMA LTD /DE/	XOMA	Health Care	267	73%	-9%	65%
EXELIXIS INC	EXEL	Health Care	667	46%	17%	63%
ACADIA PHARMACEUTICALS INC	ACAD	Health Care	307	28%	34%	63%
BORLAND SOFTWARE CORP	BORL	IT	112	89%	-26%	62%
OREXIGEN THERAPEUTICS, INC.	OREX	Health Care	279	16%	45%	61%
UTSTARCOM INC	UTSI	IT	622	30%	30%	60%
HYPERCOM CORP	HYC	IT	252	21%	39%	60%
HLTH CORP	HLTH	Health Care	2,145	24%	36%	60%
LSI CORP	LSI	IT	4,375 ⁽²⁾	48%	12%	60%
INTERNET BRANDS, INC.	INET	IT	283	25%	34%	59%

Appendix A. Companies with Tax NOLs, Tax Credits, and Net Cash

(Sorted by NOLs and Tax Credits + Net Cash / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Sector	Market Cap.	NOLs & Tax Credits / Market Cap.	Net Cash / (Debt) as a % of Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
IOMEGA CORP	IOM	IT	213	27%	30%	57%
LIGAND PHARMACEUTICALS INC	LGND	Health Care	353	32%	25%	57%
THESTREET COM	TSCM	IT	238	22%	34%	56%
CLINICAL DATA INC	CLDA	Health Care	394	38%	18%	56%
IOMEGA CORP	IOM	IT	213	26%	30%	56%
MEDAREX INC	MEDX	Health Care	1,061	24%	30%	54%
EXTREME NETWORKS INC	EXTR	IT	415	24%	29%	53%
ZYMOGENETICS INC	ZGEN	Health Care	604	36%	15%	51%
PROGENICS PHARMACEUTICALS INC	PGNX	Health Care	372	22%	28%	50%
IDENIX PHARMACEUTICALS INC	IDIX	Health Care	371	27%	23%	50%
ULTRATECH INC	UTEK	IT	396	13%	34%	47%
MAGELLAN HEALTH SERVICES INC	MGLN	Health Care	1,500	7%	40%	47%
MAP PHARMACEUTICALS, INC.	MAPP	Health Care	234	16%	31%	47%
S1 CORP /DE/	SONE	IT	376	31%	16%	47%
CIENA CORP	CIEN	IT	2,921	33%	13%	46%
BIGBAND NETWORKS, INC.	BBND	IT	399	8%	38%	46%
FUELCELL ENERGY INC	FCEL	Industrials	610	24%	22%	46%
CELL GENESYS INC	CEGE	Health Care	296	72%	-27%	45%
BROOKS AUTOMATION INC	BRKS	IT	635 ⁽²⁾	20%	24%	45%
CAPSTONE TURBINE CORP	CPST	Industrials	507	36%	8%	45%
ALKERMES INC	ALKS	Health Care	1,376	18%	26%	44%
RIGEL PHARMACEUTICALS INC	RIGL	Health Care	800	18%	26%	44%
HARMONIC INC	HLIT	IT	804	9%	35%	43%
ARRAY BIOPHARMA INC	ARRY	Health Care	293	19%	24%	43%
THERAVANCE INC	THRX	Health Care	821	33%	10%	43%
ALNYLAM PHARMACEUTICALS, INC.	ALNY	Health Care	1,190	6%	37%	43%
LATTICE SEMICONDUCTOR CORP	LSCC	IT	420	31%	11%	42%
WET SEAL INC	WTSLA	Con. Disc.	382	17%	25%	42%
INDEVUS PHARMACEUTICALS INC	IDEV	Health Care	342	44%	-2%	42%
MIRANT CORP	MIR	Utilities	8,342	18%	23%	41%
INTERMUNE INC	ITMN	Health Care	584	33%	7%	40%
IDERA PHARMACEUTICALS, INC.	IDRA	Health Care	335	32%	7%	39%
ADC TELECOMMUNICATIONS INC	ADCT	IT	1,805	42%	-4%	38%
TERCICA INC	TRCA	Health Care	197	33%	5%	38%
INCYTE CORP	INCY	Health Care	866	52%	-15%	36%
SUN MICROSYSTEMS, INC.	JAVA	IT	10,492	19%	17%	36%
WINN DIXIE STORES INC	WINN	Con. Stap.	948	23%	12%	36%
EARTHLINK INC	ELNK	IT	995	25%	11%	36%
INTERWOVEN INC	IWOV	IT	581	6%	30%	36%
SONUS NETWORKS INC	SONSE	IT	1,209	4%	31%	35%
TIVO INC	TIVO	IT	884	24%	11%	35%
UNITED ONLINE INC	UNTD	IT	823	8%	27%	35%
GTX INC /DE/	GTXI	Health Care	571	11%	24%	35%
ACORDA THERAPEUTICS INC	ACOR	Health Care	639	10%	24%	34%
ISIS PHARMACEUTICALS INC	ISIS	Health Care	1,229	20%	14%	33%
KAISER ALUMINUM CORP	KALU	Materials	1,340	30%	4%	33%
DENDREON CORP	DNDN	Health Care	502	36%	-2%	33%
CIRCUIT CITY STORES INC	CC	Con. Disc.	844	6%	27%	33%
MOMENTA PHARMACEUTICALS INC	MNTA	Health Care	512	11%	22%	33%
EASTMAN KODAK CO	EK	Con. Disc.	4,943	20%	12%	32%

Appendix A. Companies with Tax NOLs, Tax Credits, and Net Cash

(Sorted by NOLs and Tax Credits + Net Cash / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Sector	Market Cap.	NOLs & Tax Credits / Market Cap.	Net Cash / (Debt) as a % of Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
LEAPFROG ENTERPRISES INC	LF	Con. Disc.	571	13%	19%	32%
WEBMD HEALTH CORP.	WBMD	IT	1,683	14%	18%	32%
SEATTLE GENETICS INC /WA	SGEN	Health Care	799	10%	21%	31%
ART TECHNOLOGY GROUP INC	ARTG	IT	456	21%	10%	31%
MEDICINES CO /DE	MDCO	Health Care	989	9%	22%	31%
PARKVISION INC	PRKR	IT	270	26%	5%	31%
DIGIMARC CORP	DMRC	IT	243	19%	12%	31%
SEPRACOR INC /DE/	SEPR	Health Care	2,184	23%	8%	30%
PRINCETON REVIEW INC	REVV	Con. Disc.	251	14%	17%	30%
ONYX PHARMACEUTICALS INC	ONXX	Health Care	2,009	10%	20%	30%
ANGIODYNAMICS INC	ANGO	Health Care	365	10%	20%	30%
DEXCOM INC	DXCM	Health Care	220	28%	1%	29%
BENCHMARK ELECTRONICS INC	BHE	IT	1,211	5%	24%	29%
AFFYMETRIX INC	AFFX	Health Care	835	10%	19%	29%
ANADIGICS INC	ANAD	IT	767	15%	14%	29%
ALLOS THERAPEUTICS INC	ALTH	Health Care	398	14%	15%	28%
ABIOMED INC	ABMD	Health Care	445	17%	11%	28%
EV3 INC.	EVVV	Health Care	1,034	24%	5%	28%
DURECT CORP	DRRX	Health Care	359	21%	6%	28%
ABIOMED INC	ABMD	Health Care	445	16%	11%	28%
COMVERGE, INC.	COMV	IT	289	10%	17%	27%
MARTHA STEWART LIVING OMNIMEDIA INC	MSO	Con. Disc.	510	9%	18%	27%
TEKELEC	TKLC	IT	1,071	8%	18%	26%
WIND RIVER SYSTEMS INC	WIND	IT	678	7%	18%	26%
HARRIS STRATEX NETWORKS, INC.	HSTX	IT	636	11%	14%	25%
PMC SIERRA INC	PMCS	IT	1,920	17%	8%	25%
BROCADE COMMUNICATIONS SYSTEMS INC	BRCD	IT	2,967	9%	17%	25%
ATMEL CORP	ATML	IT	1,911	15%	9%	25%
POZEN INC /NC	POZN	Health Care	417	10%	15%	25%
BLUE COAT SYSTEMS INC	BCSI	IT	924	6%	18%	24%
BROADCOM CORP	BRM	IT	14,785	10%	14%	24%
TURBOCHEF TECHNOLOGIES INC	OVEN	Industrials	206	18%	6%	24%
ALIGN TECHNOLOGY INC	ALGN	Health Care	872	9%	15%	24%
INSULET CORP	PODD	Health Care	474	13%	10%	23%
GENOMIC HEALTH INC	GHDX	Health Care	525	11%	12%	23%
KRISPY KREME DOUGHNUTS INC	KKD	Con. Disc.	211	47%	-25%	22%
TELEPHONE & DATA SYSTEMS INC /DE/	TDI	Industrials	196	42%	-21%	22%
SUCCESSFACTORS, INC.	SFSF	IT	605	7%	14%	22%
ACURA PHARMACEUTICALS, INC	ACUR	Health Care	405	14%	8%	21%
PALM INC	PALM	IT	622	41%	-20%	21%
EMCORE CORP	EMKR	IT	627	16%	4%	21%
NETSUITE INC	N	IT	1,155	6%	14%	20%
ENTROPIC COMMUNICATIONS INC	ENTR	IT	363	11%	10%	20%
GLOBALSTAR, INC.	GSAT	Telecom Serv.	327	24%	-4%	20%
KNOT INC	KNOT	IT	356	6%	14%	20%
AMERICAN SUPERCONDUCTOR CORP /DE/	AMSC	Industrials	1,279	12%	8%	20%
JDA SOFTWARE GROUP INC	JDAS	IT	605	17%	3%	19%
XENOPORT INC	XNPT	Health Care	1,108	6%	13%	19%
KLA TENCOR CORP	KLAC	IT	7,808	3%	16%	19%
COMVAULT SYSTEMS INC	CVLT	IT	719	6%	13%	19%

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(Sorted by NOLs and Tax Credits + Net Cash / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Sector	Market Cap.	NOLs & Tax Credits / Market Cap.	Net Cash / (Debt) as a % of Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
THIRD WAVE TECHNOLOGIES INC /WI	TWTI	Health Care	394	16%	3%	19%
TERRESTAR CORP	TSTR	Telecom Serv.	436	99%	-80%	19%
MAGMA DESIGN AUTOMATION INC	LAVA	IT	287	23%	-5%	18%
ARMSTRONG WORLD INDUSTRIES INC	AWI	Industrials	1,955	36%	-18%	18%
MYRIAD GENETICS INC	MYGN	Health Care	2,030	7%	10%	17%
INTEGRATED DEVICE TECHNOLOGY INC	IDTI	IT	2,242	7%	11%	17%
CBEYOND, INC.	CBEY	Telecom Serv.	495	8%	9%	17%
VERTEX PHARMACEUTICALS INC / MA	VRTX	Health Care	3,888	13%	4%	17%
AXCELIS TECHNOLOGIES INC	ACLS	IT	580	15%	1%	16%
VALENCE TECHNOLOGY INC	VLNC	Industrials	451	27%	-11%	16%
MILLENNIUM PHARMACEUTICALS INC	MLNM	Health Care	8,172	9%	7%	16%
CUBIST PHARMACEUTICALS INC	CBST	Health Care	1,060	15%	0%	15%
CYBERONICS INC	CYBX	Health Care	456	23%	-7%	15%
CV THERAPEUTICS INC	CVTX	Health Care	525	63%	-48%	15%
AMYLIN PHARMACEUTICALS INC	AMLN	Health Care	4,407	12%	3%	15%
OVERSTOCK.COM, INC	OSTK	Con. Disc.	564	12%	3%	15%
EVERGREEN SOLAR INC	ESLR	Industrials	1,148	4%	10%	14%
HANSEN MEDICAL INC	HNSN	Health Care	471	8%	6%	14%
ACI WORLDWIDE, INC.	ACIW	IT	615	9%	5%	14%
MEDIVATION, INC.	MDVN	Health Care	399	6%	8%	14%
SECURE COMPUTING CORP	SCUR	IT	351	19%	-5%	14%
ATLAS AIR WORLDWIDE HOLDINGS INC	AAWW	Industrials	1,407	8%	6%	14%
CNET NETWORKS INC	CNET	IT	1,732	10%	3%	12%
LUMINEX CORP	LMNX	Health Care	730	7%	4%	12%
PRICELINE COM INC	PCLN	Con. Disc.	5,219	11%	0%	11%
ENER1 INC	HEV	Industrials	582	9%	2%	11%
AUXILIUM PHARMACEUTICALS INC	AUXL	Health Care	1,251	6%	5%	11%
ECLIPSYS CORP	ECLP	Health Care	1,115	8%	2%	10%
ZOLTEK COMPANIES INC	ZOLT	Materials	1,051	4%	6%	10%
APPLERA CORP	ABI	Health Care	5,790	7%	2%	9%
CYBERSOURCE CORP	CYBS	IT	1,325	5%	4%	9%
NEXTWAVE WIRELESS INC.	WAVE	IT	695	36%	-27%	9%
PARAMETRIC TECHNOLOGY CORP	PMTC	IT	2,089	6%	3%	9%
MICRON TECHNOLOGY INC	MU	IT	6,726	17%	-8%	9%
ARRIS GROUP INC	ARRS	IT	1,006	6%	2%	8%
ENERGY CONVERSION DEVICES INC	ENER	Industrials	2,304	5%	3%	8%
HUMAN GENOME SCIENCES INC	HGSI	Health Care	806	86%	-78%	8%
SKYWORKS SOLUTIONS INC	SWKS	IT	1,516	8%	-1%	7%
ALEXION PHARMACEUTICALS INC	ALXN	Health Care	2,727	10%	-3%	7%
MARTEK BIOSCIENCES CORP	MATK	Health Care	1,175	5%	1%	6%
STILLWATER MINING CO /DE/	SWC	Materials	1,387	9%	-3%	6%
CHICAGO BRIDGE & IRON CO N V	CBI	Industrials	4,372	4%	2%	6%
PRICESMART INC	PSMT	Con. Stap.	815	5%	1%	6%
TAKE TWO INTERACTIVE SOFTWARE INC	TTWO	IT	2,083	5%	1%	6%
AKAMAI TECHNOLOGIES INC	AKAM	IT	6,785	3%	2%	5%
VEECO INSTRUMENTS INC	VECO	IT	598	10%	-5%	5%
AKORN INC	AKRX	Health Care	380	6%	-1%	5%
TRICO MARINE SERVICES INC	TRMA	Energy	498	10%	-5%	5%
CHECKPOINT SYSTEMS INC	CKP	IT	1,011	4%	0%	4%
ALPHARMA INC	ALO	Health Care	1,435	6%	-2%	4%

Appendix A. Companies with Tax NOLs, Tax Credits, and Net Cash

(Sorted by NOLs and Tax Credits + Net Cash / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Sector	Market Cap.	NOLs & Tax Credits / Market Cap.	Net Cash / (Debt) as a % of Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
FIBERTOWER CORP	FTWR	Telecom Serv.	250	77%	-74%	3%
CONCEPTUS INC	CPTS	Health Care	569	15%	-12%	3%
FINISAR CORP	FNSR	IT	472	34%	-32%	3%
SKILLSOFT PUBLIC LIMITED CO	SKIL	IT	1,109	11%	-10%	1%
SPHERION CORP	SFN	Industrials	297	27%	-26%	1%
PDL BIOPHARMA, INC.	PDLI	Health Care	1,125	9%	-8%	1%
INTERPUBLIC GROUP OF COMPANIES, INC.	IPG	Con. Disc.	4,752	14%	-13%	0%
FLEXTRONICS INTERNATIONAL LTD.	FLEX	IT	8,937	18%	-19%	-1%
STANDARD REGISTER CO	SR	Industrials	306	13%	-14%	-1%
TYCO ELECTRONICS LTD.	TEL	IT	18,724	11%	-13%	-2%
FAIRCHILD SEMICONDUCTOR INTERNATIONAL	FCS	IT	1,764	8%	-10%	-2%
PIER 1 IMPORTS INC/DE	PIR	Con. Disc.	718	11%	-13%	-2%
SANMINA-SCI CORP	SANM	IT	860	70%	-73%	-4%
NII HOLDINGS INC	NIHD	Telecom Serv.	8,467	4%	-8%	-4%
CLEARWIRE CORP	CLWR	Telecom Serv.	2,283	19%	-23%	-4%
GULFPORT ENERGY CORP	GPOR	Energy	599	6%	-11%	-4%
WARNACO GROUP INC /DE/	WRNC	Con. Disc.	2,310	3%	-8%	-4%
ALLSCRIPTS HEALTHCARE SOLUTIONS INC	MDRX	Health Care	707	7%	-12%	-5%
SCANSOFT INC	NUAN	IT	4,186	8%	-13%	-5%
GREAT ATLANTIC & PACIFIC TEA CO INC	GAP	Con. Stap.	1,497	23%	-29%	-6%
TYCO INTERNATIONAL LTD /BER/	TYC	Industrials	22,241	6%	-15%	-9%
MASSEY ENERGY CO	MEE	Energy	5,198	5%	-14%	-9%
VERISIGN INC/CA	VRSN	IT	7,839	3%	-12%	-9%
ON SEMICONDUCTOR CORP	ONNN	IT	4,121	12%	-22%	-10%
XM SATELLITE RADIO HOLDINGS INC	XMSR	Con. Disc.	3,805	28%	-38%	-10%
SEARS HOLDINGS CORP	SHLD	Con. Disc.	12,564	3%	-14%	-11%
L-1 IDENTITY SOLUTIONS, INC.	ID	IT	1,161	11%	-22%	-12%
WABASH NATIONAL CORP /DE	WNC	Industrials	248	15%	-29%	-14%
PLAYBOY ENTERPRISES INC	PLA	Con. Disc.	199	32%	-47%	-14%
LIVE NATION, INC.	LYV	Con. Disc.	1,176	13%	-28%	-15%
SPX CORP	SPW	Industrials	6,769	3%	-18%	-15%
CASUAL MALE RETAIL GROUP INC	CMRG	Con. Disc.	189	13%	-28%	-16%
GOODYEAR TIRE & RUBBER CO /OH/	GT	Con. Disc.	6,972	8%	-24%	-16%
RELIANT ENERGY INC	RRI	Utilities	8,201	8%	-24%	-16%
USG CORP	USG	Industrials	3,604	13%	-30%	-18%
ARVINMERITOR INC	ARM	Con. Disc.	1,184	59%	-78%	-19%
VONAGE HOLDINGS CORP	VG	Telecom Serv.	286	115%	-134%	-19%
INTERNATIONAL COAL GROUP, INC.	ICO	Energy	1,549	3%	-23%	-20%
OWENS CORNING	OC	Industrials	3,668	35%	-55%	-21%
VALEANT PHARMACEUTICALS INTERNATIONAL	VRX	Health Care	1,363	10%	-31%	-21%
VALHI INC /DE/	VHI	Materials	3,249	5%	-27%	-22%
NEWPARK RESOURCES INC	NR	Energy	606	9%	-32%	-23%
ENZON PHARMACEUTICALS INC	ENZN	Health Care	391	13%	-37%	-23%
INTERFACE INC	IFSIA	Industrials	853	6%	-29%	-24%
TW TELECOM INC.	TWTC	Telecom Serv.	2,726	14%	-39%	-24%
CHAMPION ENTERPRISES INC	CHB	Con. Disc.	700	13%	-38%	-26%
RCN CORP /DE/	RCNI	Con. Disc.	461	121%	-147%	-26%
BRUNSWICK CORP	BC	Con. Disc.	1,465	5%	-32%	-27%
PRIMEDIA INC	PRM	Con. Disc.	261	58%	-85%	-27%
PETROHAWK ENERGY CORP	HK	Energy	5,155	3%	-30%	-27%

Appendix A. Companies with Tax NOLs, Tax Credits, and Net Cash

(Sorted by NOLs and Tax Credits + Net Cash / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Sector	Market Cap.	NOLs & Tax Credits / Market Cap.	Net Cash / (Debt) as a % of Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
COMPUTER SCIENCES CORP	CSC	IT	7,532	5%	-33%	-28%
RF MICRO DEVICES INC	RFMD	IT	1,140	6%	-34%	-29%
OWENS ILLINOIS INC /DE/	OI	Materials	9,387	8%	-37%	-29%
LEAP WIRELESS INTERNATIONAL INC	LEAP	Telecom Serv.	4,214	7%	-36%	-29%
STARWOOD HOTEL & RESORTS WORLDWIDE	HOT	Con. Disc.	9,897	7%	-37%	-30%
EINSTEIN NOAH RESTAURANT GROUP INC	BAGL	Con. Disc.	239	25%	-55%	-30%
POWERWAVE TECHNOLOGIES INC	PWAV	IT	532	22%	-52%	-31%
INVERNESS MEDICAL INNOVATIONS INC	IMA	Health Care	2,585	6%	-38%	-32%
MIDAS INC	MDS	Con. Disc.	216	17%	-49%	-32%
SAVVIS, INC.	SVVS	IT	857	12%	-44%	-32%
NEWELL RUBBERMAID INC	NWL	Con. Disc.	5,837	3%	-36%	-33%
TERREMARK WORLDWIDE INC	TMRK	IT	350	24%	-58%	-34%
EXIDE TECHNOLOGIES	XIDE	Con. Disc.	1,093	29%	-64%	-34%
FAIR ISAAC CORP	FIC	IT	1,223	4%	-39%	-35%
EXTERRAN HOLDINGS INC.	EXH	Energy	4,869	10%	-45%	-35%
AMERICAN AXLE & MANUFACTURING HOLDINGS	AXL	Con. Disc.	1,222	10%	-45%	-35%
CONTINENTAL AIRLINES INC /DE/	CAL	Industrials	1,774	78%	-115%	-37%
IPCS, INC	IPCS	Telecom Serv.	508	41%	-79%	-38%
KANSAS CITY SOUTHERN	KSU	Industrials	3,657	9%	-47%	-38%
QUANTUM CORP /DE/	QTM	IT	407	69%	-107%	-39%
ADVANCED MICRO DEVICES INC	AMD	IT	4,404 ⁽²⁾	41%	-80%	-39%
CHEMTURA CORP	CEM	Materials	1,920	11%	-51%	-40%
COVANTA HOLDING CORP	CVA	Industrials	4,396	3%	-44%	-40%
HUTCHINSON TECHNOLOGY INC	HTCH	IT	346	14%	-54%	-41%
FLEETWOOD ENTERPRISES INC/DE/	FLE	Con. Disc.	248	56%	-97%	-41%
GENCORP INC	GY	Industrials	476	37%	-78%	-41%
KRONOS WORLDWIDE INC	KRO	Materials	1,148	14%	-55%	-42%
HUGHES COMMUNICATIONS, INC.	HUGH	IT	963	6%	-48%	-42%
AQUILA INC	ILA	Utilities	1,425	32%	-75%	-43%
XEROX CORP	XRX	IT	12,956	15%	-58%	-43%
ICO GLOBAL COMMUNICATIONS (HOLDINGS)	ICOG	Telecom Serv.	703	21%	-65%	-44%
LEVEL 3 COMMUNICATIONS INC	LVLT	Telecom Serv.	5,509	67%	-114%	-47%
EPICOR SOFTWARE CORP	EPIC	IT	479	11%	-59%	-48%
BLOCKBUSTER INC	BBI	Con. Disc.	609	42%	-94%	-52%
CHIQUITA BRANDS INTERNATIONAL INC	CQB	Con. Stap.	1,005	25%	-78%	-54%
GENERAL MOTORS CORP	GM	Con. Disc.	11,708	121%	-176%	-55%
FERRO CORP	FOE	Materials	784	12%	-67%	-55%
PAETEC HOLDING CORP.	PAET	Telecom Serv.	1,153	15%	-71%	-56%
LENNAR CORP /NEW/	LEN	Con. Disc.	3,217	4%	-62%	-58%
FEDERAL SIGNAL CORP /DE/	FSS	Industrials	647	7%	-65%	-58%
DENNYS CORP	DENN	Con. Disc.	377	30%	-89%	-58%
KEMET CORP	KEM	IT	328	36%	-97%	-61%
TRW AUTOMOTIVE HOLDINGS CORP	TRW	Con. Disc.	2,928	27%	-89%	-61%
RENT A CENTER INC DE	RCII	Con. Disc.	1,505	6%	-71%	-66%
SPRINT NEXTEL CORP	S	Telecom Serv.	26,144	8%	-75%	-67%
INNOPHOS HOLDINGS, INC.	IPHS	Materials	523	7%	-74%	-67%
FAIRPOINT COMMUNICATIONS INC	FRP	Telecom Serv.	810	9%	-77%	-68%
IOWA TELECOMMUNICATIONS SERVICES INC	IWA	Telecom Serv.	572	13%	-83%	-70%
NORTHWESTERN CORP	NWE	Utilities	941	8%	-82%	-73%
ALASKA COMMUNICATIONS SYSTEMS GROUP	ALSK	Telecom Serv.	491	10%	-84%	-74%

Appendix A. Companies with Tax NOLs, Tax Credits, and Net Cash

(Sorted by NOLs and Tax Credits + Net Cash / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Sector	Market Cap.	NOLs & Tax Credits / Market Cap.	Net Cash / (Debt) as a % of Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
PEP BOYS MANNY MOE & JACK	PBY	Con. Disc.	466	8%	-82%	-74%
EL PASO CORP/DE	EP	Energy	14,384	10%	-85%	-75%
TENNECO INC	TEN	Con. Disc.	1,268	28%	-103%	-75%
ORBITZ WORLDWIDE, INC.	OWW	Con. Disc.	580	24%	-99%	-75%
INVACARE CORP	IVC	Health Care	602	7%	-82%	-75%
ATP OIL & GAS CORP	ATPG	Energy	1,591	5%	-81%	-76%
HEALTHSOUTH CORP	HLS	Health Care	1,495	51%	-127%	-76%
POLYPORE INTERNATIONAL, INC.	PPO	Industrials	997	5%	-82%	-77%
APEX SILVER MINES LTD	SIL	Materials	536	12%	-90%	-79%
OMNICARE INC	OCR	Health Care	2,958	3%	-83%	-80%
CALPINE CORP	CPN	Utilities	8,979	25%	-105%	-80%
ACCO BRANDS CORP	ABD	Industrials	834	14%	-95%	-81%
HAYES LEMMERZ INTERNATIONAL INC	HAYZ	Con. Disc.	378	56%	-137%	-81%
BUCKEYE TECHNOLOGIES INC	BKI	Materials	380	17%	-99%	-81%
OMNOVA SOLUTIONS INC	OMN	Materials	156	35%	-117%	-82%
CSK AUTO CORP	CAO	Con. Disc.	519	9%	-91%	-82%
BEARINGPOINT INC	BE	IT	331	87%	-170%	-83%
SUN HEALTHCARE GROUP INC	SUNH	Health Care	624	18%	-103%	-85%
MACQUARIE INFRASTRUCTURE CO LLC	MIC	Industrials	1,398	18%	-103%	-85%
APRIA HEALTHCARE GROUP INC	AHG	Health Care	698	8%	-93%	-85%
CROWN MEDIA HOLDINGS INC	CRWN	Con. Disc.	528	117%	-202%	-85%
OFFICEMAX INC	OMX	Con. Disc.	1,563	19%	-104%	-86%
FEDERAL MOGUL CORP	FDML	Con. Disc.	2,042	19%	-106%	-87%
WASTE SERVICES, INC.	WSIID	Industrials	343	18%	-109%	-90%
ALLIANCE ONE INTERNATIONAL, INC.	AOI	Con. Stap.	598	19%	-110%	-91%
KNOLGY INC	KNOL	Con. Disc.	541	15%	-107%	-92%
NORTHWEST AIRLINES CORP	NWA	Industrials	2,066	70%	-163%	-93%
LODGIAN INC	LGN	Con. Disc.	200	44%	-139%	-95%
MACQUARIE INFRASTRUCTURE CO LLC	MIC	Industrials	1,398	4%	-103%	-99%
VIRGIN MOBILE USA, INC.	VM	Telecom Serv.	183	72%	-172%	-100%
KNOLGY INC	KNOL	Con. Disc.	541	6%	-107%	-101%
ADVANCED MEDICAL OPTICS INC	EYE	Health Care	1,405	5%	-112%	-107%
REDDY ICE HOLDINGS INC	FRZ	Con. Stap.	295	10%	-122%	-112%
DELTA AIR LINES INC /DE/	DAL	Industrials	2,198	173%	-287%	-114%
UAL CORP /DE/	UAUA	Industrials	1,737	159%	-276%	-118%
US AIRWAYS GROUP INC	LCC	Industrials	718	45%	-163%	-119%
CINCINNATI BELL INC	CBB	Telecom Serv.	1,074	58%	-187%	-129%
MORGANS HOTEL GROUP CO.	MHGC	Con. Disc.	443	8%	-139%	-132%
SEALY CORP	ZZ	Con. Disc.	572	5%	-139%	-134%
WARNER MUSIC GROUP CORP.	WMG	Con. Disc.	1,302	19%	-156%	-137%
CONEXANT SYSTEMS INC	CNXT	IT	232	20%	-159%	-139%
TENET HEALTHCARE CORP	THC	Health Care	2,712	26%	-165%	-140%
AMR CORP	AMR	Industrials	2,288	117%	-262%	-145%
LANDRYS RESTAURANTS INC	LNY	Con. Disc.	257	27%	-175%	-148%
SOLUTIA INC	SOA	Materials	845	57%	-212%	-155%
ENERGY XXI (BERMUDA) LTD	EXXI	Energy	597	15%	-179%	-164%
HORIZON LINES, INC.	HRZ	Industrials	316	11%	-200%	-189%
SMURFIT STONE CONTAINER CORP	SSCC	Materials	1,556	30%	-223%	-193%
RURAL CELLULAR CORP	RCCC	Telecom Serv.	710	30%	-230%	-200%
CENVEO, INC	CVO	Industrials	608	19%	-227%	-209%

Appendix A. Companies with Tax NOLs, Tax Credits, and Net Cash

(Sorted by NOLs and Tax Credits + Net Cash / Market Capitalization)

(\$ in millions)

Company Name	Ticker	Sector	Market Cap.	NOLs & Tax Credits / Market Cap. ⁽¹⁾	Net Cash / (Debt) as a % of Market Cap.	NOLs & Tax Credits + Net Cash (Debt) / Market Cap.
JETBLUE AIRWAYS CORP	JBLU	Industrials	1,095	21%	-231%	-210%
AIRTRAN HOLDINGS INC	AAI	Industrials	313	31%	-242%	-211%
REVLON INC /DE/	REV	Con. Stap.	461	87%	-300%	-212%
SPANSION INC.	SPSN	IT	435	53%	-276%	-223%
CENTENNIAL COMMUNICATIONS CORP /DE	CYCL	Telecom Serv.	789	19%	-244%	-225%
HERTZ CORP	HTZ	Industrials	4,563	11%	-246%	-235%
RITE AID CORP	RAD	Con. Stap.	2,027	52%	-288%	-235%
GATEHOUSE MEDIA, INC.	GHS	Con. Disc.	275	28%	-452%	-424%
MEDIACOM COMMUNICATIONS CORP	MCCC	Con. Disc.	530	171%	-605%	-434%
AVIS BUDGET GROUP, INC.	CAR	Industrials	1,516	16%	-473%	-457%
HUNGARIAN TELEPHONE & CABLE CORP	HTC	Telecom Serv.	267	21%	-479%	-458%
CITADEL BROADCASTING CORP	CDL	Con. Disc.	451	6%	-492%	-485%
STANDARD PACIFIC CORP /DE/	SPF	Con. Disc.	198	19%	-741%	-722%
ABITIBIBOWATER INC.	ABH	Materials	576	202%	-984%	-782%
GEORGIA GULF CORP /DE/	GGC	Materials	165	46%	-843%	-797%
SPECTRUM BRANDS, INC.	SPC	Con. Stap.	236	150%	-1053%	-903%
DOLLAR THRIFTY AUTOMOTIVE GROUP INC	DTG	Industrials	318	57%	-972%	-916%
BOWATER INC	BOW	Materials	576	66%	-984%	-918%
FORD MOTOR CO	F	Con. Disc.	18,183	18%	-1007%	-989%
R H DONNELLEY CORP	RHD	Con. Disc.	447	56%	-2248%	-2192%
INDYMAC BANCORP INC	IMB	Financials	155	353%	NM	NM
CONSECO INC	CNO	Financials	2,066	86%	NM	NM
E TRADE FINANCIAL CORP	ETFC	Financials	2,039	32%	NM	NM
CIT GROUP INC	CIT	Financials	3,454	28%	NM	NM
COUNTRYWIDE FINANCIAL CORP	CFC	Financials	2,882	18%	NM	NM
DOLLAR FINANCIAL CORP	DLLR	Financials	465	16%	NM	NM
LEUCADIA NATIONAL CORP	LUK	Financials	13,108	15%	NM	NM
DORAL FINANCIAL CORP	DRL	Financials	1,100	12%	NM	NM
PMI GROUP INC	PMI	Financials	482	11%	NM	NM
AMPAL-AMERICAN ISRAEL CORP	AMPL	Financials	329	11%	NM	NM
MERRILL LYNCH & CO INC	MER	Financials	48,133	9%	NM	NM
BGC PARTNERS, INC.	BGCP	Financials	488	7%	NM	NM
SOVEREIGN BANCORP INC	SOV	Financials	3,894	7%	NM	NM
MORGAN STANLEY	MS	Financials	52,269	3%	NM	NM
GENWORTH FINANCIAL INC	GNW	Financials	10,099	3%	NM	NM

Con. Disc.= Consumer Discretionary. Con. Stap.= Consumer Staples.

Note: Deferred tax asset amounts includes federal, state & foreign net operating loss, tax credit carryforwards, and capitalized R&D, if available. NOLs/tax credits may be subject to certain annual use limitations per IRC Section 382.

NM: Not meaningful, in our view, for financial services firms due to industry characteristics.

(1) Includes federal, state & foreign net operating loss, tax credit carryforwards, and capitalized R&D, if available. NOLs/tax credits may be subject to certain annual use limitations per IRC Section 382.

(2) Includes deferred tax asset amount for tax deductible goodwill.

Source: Company filings. FactSet.