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**Off but Not Gone: A Study of Nasdaq
Delistings**

Jeffrey H. Harris, Department of Finance, University of Delaware
Venkatesh Panchapagesan, The Goldman Sachs Group, Inc.
Ingrid Werner, Department of Finance, The Ohio State University

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Jeffrey H. Harris*
U.S. Commodity Futures Trading Commission
and
University of Delaware
Lerner College of Business and Economics
jharris@cftc.gov

Venkatesh Panchapagesan
GSAM

Ingrid M. Werner
The Ohio State University
Fisher College of Business
werner@cob.osu.edu

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*Corresponding author: Jeffrey H. Harris, US CFTC, 1155 21st St. NW, Washington, DC 20581, jharris@cftc.gov, +1 (202) 418-5563. Please quote, but get permission first. The authors wish to thank the Nasdaq Stock Market, Inc. for providing data and financial support and Jim Angel for providing the Pink Sheet data. We are also grateful for comments from Kirsten Anderson, Michael Haigh, Jennifer Koski, Jeff Smith, Kumar Venkataraman and from seminar participants at the 2004 EFA conference, George Mason University, the University of Michigan, The Ohio State University, and University of Wisconsin—Madison. A prior incarnation of this paper was titled “From Pink Sheets to Pink Slips: Market Quality around Nasdaq Delistings.” All errors remain our own.

Off but Not Gone: A Study of Nasdaq Delistings

Abstract

We examine 1,098 Nasdaq firms delisted in 1999-2002 that subsequently traded in the OTC Bulletin Board and/or the Pink Sheets. Market quality deteriorates significantly after delisting: share volume declines by two-thirds; quoted spreads almost triple from 12.1 to 33.9 percent; and effective spreads triple from 3.3 to 9.9 percent. Volatility triples from 4.4 to 14.3 percent, but quickly reverts to slightly elevated levels. Deterioration is significantly larger for more severe violations (e.g. bankruptcy) than for lesser infractions (e.g. minimum bid price). We find the OTC Bulletin Board provides a “soft landing” for delisted firms relative to the Pink Sheets. Although the delisting process takes at least 90 days, the drop in market quality is concentrated on the delisting date, highlighting the benefits of Nasdaq listing and the economic rationale for tiered listing fees. We argue that the increased costs resulting from enforcing Nasdaq’s minor (non-core) listing criteria outweigh the benefits.

The effects of listing shares on an organized exchange have been studied extensively, with Kadlec and McConnell (1994) finding support for both improved investor recognition and improved liquidity upon listing.¹ While annual listings during the past four decades average about 30 firms per year, recent annual *delistings* outnumber listings five-fold. In fact, nearly 4,000 Nasdaq firms were delisted between 1998 and 2004—a delisting rate of nearly 20% annually! Nearly half of these firms are forced to delist by Nasdaq² and most subsequently trade via the over-the-counter (OTC) Bulletin Board or the Pink Sheets. Active post-delisting trading in these markets allows us to examine how market structure changes affect various market quality measures (including liquidity).

The paucity of market data on delisted firms makes delisting studies difficult. In a notable exception, Sanger and Peterson (1990) follow New York Stock Exchange (NYSE) and American Stock Exchange delistings that subsequently trade OTC or on Nasdaq. They find that delisting returns on the order of -8% to -9% likely represent lost liquidity for these firms. In this paper, we meticulously track 1,098 Nasdaq delistings during 1999-2002 that subsequently trade on the OTC Bulletin Board and Pink Sheet markets. We compile comprehensive, intraday post-delisting trading data from these electronic markets to document various market quality changes. In essence, we extend Sanger and Peterson (1990) by examining the multitude of Nasdaq delistings with much more comprehensive data in the internet era. Despite the enhanced connectivity of Bulletin Board and Pink Sheet markets, we document dramatic and immediate Nasdaq delisting returns on the order -19%.

¹ Listing effects are also explored in Merjos (1962, 1963), Ying, et al. (1977), and Sanger and McConnell (1986). A number of related papers examine listing changes and international cross listings.

²The other half leave Nasdaq via merger, acquisition or by voluntarily “going dark.”

We explore the sources of these dramatic returns by examining changes to a variety of market quality measures around the delisting event. We find that market quality deteriorates significantly on the delisting date, with immediate drops in share volume, the number of trades, and the number of market maker quotes accompanied by immediate increases in quoted and effective spreads. For example, share volume declines by almost two-thirds, quoted spreads nearly triple from 12.1 to 33.6 basis points and effective spreads triple from 3.3 to 9.9 basis points on the Nasdaq delisting day. These results highlight that lost liquidity results from diminished public trading interest as well as from diminished market maker activity.

Moreover, the immediate loss in liquidity contains both permanent and transitory components. The immediate spike in quoted and effective spreads on the delisting date slowly revert (over several weeks) to permanently inflated levels. Similarly, intraday volatility spikes on the delisting date (tripling from 4.4 to 14.3 percent), but reverts to slightly elevated levels within a few weeks, suggesting that delisting creates transient confusion about where shares are trading—a market dislocation reflecting more severe temporary liquidity problems on the delisting day. Notably, the drop in number of trades, trading volume, quoting activity and stock price are also immediate, but do not significantly revert following delisting, demonstrating that investor interest is permanently diminished.

Our exercise sheds light on the diverse investor reaction to delisting. Although most public databases do not include Nasdaq-delisted firms, we find that most continue to trade, sometimes very actively, in the OTC Bulletin Board and Pink Sheets. For example, more than a year after WorldCom and I2 Technologies were delisted (for bankruptcy and failing to file a 10-K with the SEC, respectively), daily Pink Sheet

trading volume in these stocks averaged almost 15 million and 3 million shares, respectively.

During our sample period, Nasdaq firms could be delisted from the National Market (NM) or from the SmallCap Market (SC) to land on the OTC Bulletin Board or Pink Sheets.³ Since many delisted firms continue trading immediately, we compare market quality deterioration across these multiple venues. We test whether the deterioration in market quality relates to how far the firm falls in the hierarchy of these markets, ranking venues from top to bottom as Nasdaq NM, Nasdaq SC, OTC Bulletin Board, and Pink Sheets. We find that the further the firm falls, the worse the erosion in market quality. *Ceteris paribus*, delisting to the OTC Bulletin Board is better than delisting to the Pink Sheets--the OTC Bulletin Board provides a softer landing for delisted firms.⁴ For example, for Nasdaq NM-delisted firms, median share volume declines by 25 percent on the OTC Bulletin Board but by a full 60 percent on the Pink Sheets. Similarly, quoted spreads for these firms increase significantly from 10.0 to 23.7 percent with a move to the OTC Bulletin Board but spike precipitously from 9.4 to 49.3 percent on the Pink Sheets. Other market quality measures behave similarly across the listing hierarchy.

We also test whether the deterioration in market quality is related to the severity of the reason for delisting. Nasdaq firms may be delisted for violating a number of different criteria, ranging from *non-core* violations that Nasdaq deems relatively minor to

³ On July 1, 2006 Nasdaq is reorganizing into three distinct market tiers—Global Market Select, Global Market (the former NM), and Capital Market (formerly SC).

⁴ Macey, O'Hara, and Pompilio (2007) document market quality also deteriorates for NYSE-delisted firms, lamenting that a softer landing (relative to the Pink Sheets) does not exist. NYSE delistings are not automatically OTC Bulletin Board-eligible and, although all but eight of their NYSE delistings trade on the OTC Bulletin Board, they do not have Bulletin Board market data.

bankruptcy, the most severe.⁵ Consistent with our severity rankings, we find the deterioration in market quality is largest for *bankruptcy*, followed by *corporate governance* (e.g., SEC disclosure), *core* (e.g., size), and *non-core* (e.g., stock price below \$1.00) listing violations. For example, bankrupt firms experience an 80 percent decline in share volume and a quadrupling in quoted spreads from 11.3 to 50.0 percent. By comparison, the average *non-core* violation results in a 25 percent share volume decline and a doubling in quoted spreads from 13.4 to 29.7 percent. Similar differences in effective spread and intraday volatility changes exist as well, highlighting the fact that firm characteristics play an important role in market quality changes at delisting as well.

For Nasdaq, the costs borne by shareholders and the firm have to be weighed against the benefits that Nasdaq might reap from enforcing their listing standards. Macey, O'Hara, and Pompilio (2007) argue that markets enforce listing criteria to ensure that the market's relationship with the listed company remains profitable while protecting the reputation of the listing venue. Listed stocks need to have sufficient order flow to generate transactions fees that cover the costs of listing (systems, regulation and reputation). We provide rough estimates of these costs and benefits to evaluate the economic rationale behind enforcing Nasdaq's *non-core* listing criteria. We argue that enforcing these criteria likely hurts Nasdaq economically and suggest that the *non-core* criteria be reconsidered or amended.

Within our delisting context, we provide one of the few comprehensive looks at market quality in the OTC Bulletin Board and Pink Sheet markets. Beyond Sanger and Peterson (1990), there has been almost no research on these markets. Shumway (1997)

⁵ Nasdaq listing requirements include *non-core* requirements such as minimum market float and bid price, and *core* requirements such as minimum number of shareholders, market capitalization, and number of market makers. They also include a set of *corporate governance*-related requirements such as timely Securities and Exchange Commission (SEC) disclosure. Lastly, a firm is commonly delisted from Nasdaq following a *bankruptcy* filing.

and Shumway and Warther (1999) examine price patterns in delisted stocks in order to estimate the delisting bias in CRSP returns. Luft and Levine (2001, 2004) analyze the daily return characteristics of OTC Bulletin Board stocks.⁶ More recently, Bollen and Christie (2007) complement our effort by describing the microstructure of the Pink Sheets. Our results are a first peek at many intraday market quality measures, including spreads, volatility and quoting activity for stocks trading in the OTC Bulletin Board and Pink Sheet markets.

Our results support the economic rationale for larger fees for listing higher in the hierarchy—Nasdaq charges higher initial and continued listing fees for National Market listing than for SmallCap listing, for instance. Firms violating more stringent listing requirements lose relatively more value upon delisting. Likewise, firms falling further down the hierarchy of listing standards lose relatively more value. Nasdaq's increasing fee structure across the listing hierarchy appears to be economically justified.

The rest of the paper proceeds as follows. We outline our hypotheses in Section I, and describe Nasdaq's continued listings requirements and the process of delisting in Section II. We briefly discuss the OTC Bulletin Board and Pink Sheet markets in Section III and describe our data in Section IV. Section V includes our results on market quality and Section VI discusses the economics of delisting more generally. Section VII concludes.

⁶ Seguin and Smoller (1997) study survival of low-priced IPOs on Nasdaq, but generally do not examine off-exchange trading. Bushee and Leuz (2005) examine the impact of the SEC's requirement that OTC Bulletin Board firms file financial statements with the SEC.

I. Hypotheses

When a firm is delisted from Nasdaq, there is no automatic transition to a new trading venue. For trading to continue, at least one market maker needs to apply to the National Association of Securities Dealers (NASD) to get permission to start quoting the stock in either the OTC Bulletin Board or the Pink Sheets (see Section III below). In the investment community, firms trading on these venues are viewed as highly risky. The SEC web site (www.sec.gov) warns investors to beware of the lack of information available for firms listed on the Pink Sheets and the potential for fraud. Moreover, fewer dealers actively quote in these markets, so trading costs are likely to be higher and market quality lower as well (Stoll (1978) and Ho and Stoll (1981) focus on volume and volatility).

H1: *Market quality deteriorates after delisting.*

Following Nasdaq's own ranking, we consider *bankruptcy* and/or liquidation to be the most serious violation, followed by *corporate governance* violations. Nasdaq groups other, less serious violations by *core* (size, profitability, ownership, and fees) and *non-core* (stock price and public float). These rankings are likely correlated with the degree of uncertainty regarding future firm value. The payoff to shareholders after bankruptcy is highly uncertain, whereas there is relatively less uncertainty about firms that continue to file financials with the SEC and otherwise operate successfully, but are delisted for simply having a low stock price. The deterioration in market quality should therefore be systematically related to rankings based on listing violations.

H2: *Market quality deteriorates more for delisted firms that violate more important listing criteria.*

Some Nasdaq firms move to the OTC Bulletin Board after delisting while others end up trading in the Pink Sheets. We include a detailed description of these markets in Section III noting that, while neither market has other formal listing requirements, the OTC Bulletin Board has since 2000 required SEC disclosure. More public disclosure tends to be associated with less risk, so we expect less deterioration in market quality for firms landing on the OTC Bulletin Board than for firms landing in the Pink Sheets.

H3: *Market quality deteriorates more after delisting if the firm falls down further in the hierarchy of markets.*

II. Nasdaq's Listing Requirements and the Delisting Process

In order to qualify to have its stock listed on Nasdaq's National Market (NM) or on its SmallCap Market, a firm has to satisfy a set of initial listing requirements, formally apply to be listed and pay an initial listing fee. In addition, firms pay annual listing fees to maintain Nasdaq listing. Annual listing fees are uniformly higher for National Market listing than for SmallCap listing, indicating that the market perceives (and will pay for) incremental benefits from National Market listing.⁷

Like many other markets, Nasdaq also enforces a set of continued listing requirements for each of its market segments, the so-called maintenance standards

⁷ During our sample period SmallCap and National Market annual fees top out at \$21,000 and \$75,000, respectively. In 2005, initial and continued listing fees comprised 34% of Nasdaq revenues.

(described in Appendix A).⁸ Firms that have filed for bankruptcy protection or are in liquidation violate Nasdaq's *bankruptcy* standard and no longer qualify for listing. Beyond bankruptcy, Nasdaq groups its continued listing requirements into corporate governance, core, and non-core requirements. The *corporate governance* requirements include timely reporting to the SEC and items related to the firm's governance process. The *core* requirements include size- and profitability-related variables such as a minimum level of net tangible assets and net income and secondary market-related variables such as a minimum number of round lot shareholders and registered market makers. *Non-core* requirements include a minimum bid price and a minimum (market value) of the firm's public float.

Nasdaq monitors the continued listing requirements daily for all its listed stocks. When a firm is found to violate one of the requirements, the extensive and protracted process of delisting begins. Nasdaq initially sends a deficiency notice and the firm is given a grace period of 30 to 180 days to regain compliance. If the firm remains in violation through the grace period, Nasdaq sends a determination letter informing the firm that it does not meet listing standards. The firm may appeal this determination and request a hearing (to be held 45 days later) before an impartial panel to present a plan of compliance. The panel decides on the delisting within two to four weeks. Further appeals, although possible, do not delay delisting. The entire process takes a minimum of 90 days and may last more than 250 days, suggesting that the delisting itself is not an unanticipated event. For instance, for hearings conducted during our sample period, the average (median) delisting process lasted 134 (128) days. We provide a timeline

⁸ The maintenance standards are described in Marketplace 4450(a), 4450(b), 4350 and 4351 for National Market, and in Marketplace 4310(c) for SmallCap firms.

describing the delisting process in Figure 1 and provide further details of the delisting process in Appendix B.

Once a firm is delisted from Nasdaq's National Market or SmallCap market, the firm cannot list itself on the OTC Bulletin Board or the Pink Sheets. Rather, trading on these markets depends upon a market maker filing an application (Form 211) with (and is approved by) the NASD to start quoting the stock. The market maker has to demonstrate access to the latest financial statements of the firm and general knowledge about the firm's business (among other things-see Sect. III below). To be traded on the OTC Bulletin Board, the delisted firm must be current with its SEC filings. However, the OTC Bulletin Board offers a minimum 30-day grace period so that a filing-delinquent firm might still qualify for immediate Bulletin Board trading. There is no SEC reporting requirement for quoting on the Pink Sheets.

III. The OTC Bulletin Board and Pink Sheets Markets

The OTC Bulletin Board and Pink Sheets markets trade stocks that either do not or choose not to qualify to trade on other markets in the United States. OTC Bulletin Board and Pink Sheet trading data are not included in traditional databases such as CRSP and TAQ. There is also very limited analyst coverage of these stocks. Hence, although approximately 3,200 stocks trade concurrently on both venues and another 4,300 stocks trade exclusively in the Pink Sheets, we know very little about trading in these markets.

The OTC Bulletin Board was established by the NASD in 1990 to serve as a quotation medium for stocks that were not traded on other markets. As noted above, companies are traded on the OTC Bulletin Board at the market maker community's

discretion. In fact, a company cannot prevent the trading of their shares in the OTC Bulletin Board if they are current with SEC financial statement filings.⁹

The OTC Bulletin Board operates a quotation service but does not provide order delivery or execution. Trades are executed via the telephone or through a private electronic linkage. Many OTC Bulletin Board trades were until very recently executed via telephone, but automated execution via electronic communication networks (ECNs) emerged in 2003.

Most OTC Bulletin Board stocks are penny stocks, priced below \$5 and fall under the SEC's Penny Stock Rules (Rules 15g-2 through 15g-9).¹⁰ Approximately 2,500 (78%) of OTCBB stocks are priced less than \$1, and almost 3,000 (94%) are priced less than \$5. The Penny Stock Rules are designed to combat micro-cap fraud, and require that the broker determine that the transaction is suitable for the customer, obtain a written agreement for a transaction from new customers before trading, and provide a written warning about the risks of penny stocks. These rules make it more difficult for brokers to recommend and trade low-priced stocks for their customers.

The Pink Sheets grew out of the price quotations for unlisted stocks that were originally published daily on pink sheets of paper by the National Quotation Bureau. The old physical Pink Sheets served as advertising for the market makers who quoted those stocks. The Pink Sheets introduced electronic quotations in 1999. On February 14, 2003, Pink Sheets LLC started allowing issuers to sponsor (for \$174.95/month) real-time quote display for their stocks on www.pinksheets.com, and on June 2, 2003, they introduced PinkLink – for electronic messaging and trade negotiation.

⁹ See SEC Rule 15c2-11, NASD Rule 6740, and Securities Exchange Act Release No. 29094 (April 17, 1991). Prior to 2000, companies were not required to be SEC registrants. Bushee and Leuz (2005) explore the consequences of this requirement.

¹⁰ Stocks listed on the NYSE, AMEX, and Nasdaq are automatically exempt from the Penny Stock Rules.

The broker-dealers who trade on the Pink Sheets are regulated by the NASD,¹¹ but the Pink Sheets LLC itself is not required to submit to SEC regulation because it is neither a broker-dealer nor an exchange. Companies quoted in the Pink Sheets do not even need to be SEC registrants and, in fact, many well-known foreign stocks such as Nestlé are currently quoted through the Pink Sheets.

Trading rules are very different between the OTC Bulletin Board and the Pink Sheets and the major exchanges during our sample. For example, the SEC's Limit Order Display Rule (Rule 11ac1-4) requiring market makers to display customer limit orders in their quotes, did not apply to these markets.¹² Similarly, these markets had no short sale rules like the NYSE's uptick rule or Nasdaq's bid test. However, short selling is difficult in these markets since it is difficult to borrow shares. Furthermore, no tick size rules govern these markets – participants are free to use any price increment they choose.

IV. Data

We identify the securities that were delisted during the period January 1, 1999 to December 31, 2002 using Nasdaq's website (www.nasdaqtrader.com). During these four years, 3,631 securities were delisted from Nasdaq. We eliminate all securities other than common stock or American Depositary Receipts (ADRs), reducing our sample to 2,943 delistings. Since we focus on regulatory delistings, we eliminate securities that were delisted voluntarily (e.g., those moving to the NYSE, AMEX or going private) and

¹¹ Prior to April 2003, when the SEC approved NASD Rule 6630 requiring NASD members to record detailed information on Pink Sheet quotes, the NASD had difficulty enforcing regulations for lack of data. The Pink Sheets LLP now provides market maker quotations to the NASD for regulatory purposes.

¹² In December 2002, the SEC approved a limit order protection rule (SR-NASD-2002-153) for OTCBB securities.

securities that were delisted via merger or acquisition. We also remove securities we could not track across many ticker changes reducing our sample to 1,260 securities.¹³

We obtain proprietary trades and quotes from the Nasdaq Stock Market Inc. and from Pink Sheets LLC. Our data includes trade-by-trade and quote data for all National Market, SmallCap, OTC Bulletin Board, and Pink Sheet stocks (quotes are daily summaries for Pink Sheets) for the period October 1, 1998 to March 31, 2003. In addition, we obtain daily data on open, close, intraday high and low, closing bid and ask quotes, and share volume for Pink Sheet stocks. Our event window is ± 60 trading days surrounding delisting. We match the delisted securities to Nasdaq trading data for the three-month period prior to delisting using Nasdaq's own issue identifiers. We find Nasdaq trading data for 1,245 securities in the three-month period preceding delisting, but only 1,098 trade in the OTC Bulletin Board and/or the Pink Sheets during the three-month period after delisting. Thus, our final sample consists of 1,098 securities that experienced an involuntary regulatory delisting from Nasdaq during 1999-2002. Since we cannot measure market quality for the 147 securities that do not trade after delisting, our estimates provide lower bounds for trading cost and market quality changes.

Table 1 describes the distribution of the final sample between markets. Note that securities may trade both in the National Market and SmallCap market in the three-months prior to delisting, and in both the OTC Bulletin Board and Pink Sheets after delisting. Roughly half our sample originally traded in the NM and the rest traded either on the SC or in both markets prior to delisting. After delisting, more than two-thirds of the firms trade exclusively on the OTC Bulletin Board.

¹³ One delisting (ticker=MCITE) from the Nasdaq website was postponed so we use the later date. Nasdaq uses a fifth symbol to identify special situations such as a bankruptcy.

A security may be delisted for violating one or several of the continued listing requirements discussed in Section I. Panel A of Table 2 breaks down our delisting sample by year, and provides information on the reason for the delisting. We group the reasons for delisting into *bankruptcy*, *governance*, *core*, and *non-core* violations. Almost two-thirds of our sample firms are delisted because they violate one or more *non-core* listing requirement. In fact, the most common violation is for a bid price below \$1.00—violated by almost half of our sample firms. Roughly forty percent of delisted firms violate *core* requirements. *Governance* violations force a delisting for roughly forty percent of the sample. Notably, governance violations have increased dramatically over the sample period. *Bankruptcy* delistings are, by comparison, rare.

A delisted firm often violates more than one listing requirement. In Table 2, Panel B, we tabulate the frequency distribution of violations across all delisting criteria. The numbers on the diagonal report the number of firms that violate a single delisting criterion. For example, 382 firms (roughly 35 percent) in our sample violated the *non-core* listing criteria, but did not violate any *core* listing criteria, *governance* requirements, and were not bankrupt. By comparison, 207 firms violated both *core* and *non-core* listing criteria. For completeness, Panel C breaks down these numbers by year of delisting, classifying delisted firms according to the severity of their violation: *bankruptcy*, *governance*, *core* and *non-core* in that order. We ultimately classify sample firms by their most severe violation. For instance, if a firm violates both *governance* and *core* requirements, we treat it as a *governance* violation.

Our sample of firms includes those that originated in Nasdaq's National Market and SmallCap market prior to delisting. After delisting, the firms may trade on the OTC Bulletin Board and/or the Pink Sheets. Table 3 illustrates the reasons for delisting by

market of origin (Panel A), and market of trading after delisting (Panel B). After delisting, a disproportionate number of *bankrupt* firms and *governance* violators trade exclusively on the Pink Sheets as might be expected given the higher degree of disclosure required for OTC Bulletin Board trading. Interestingly, securities delisted for less severe *non-core* infractions rarely trade on the Pink Sheets (only 27 of 382, about seven percent). This suggests that these firms choose to maintain regular filing status with the SEC thereby not worsening the information environment for their investors.

Table 4 presents summary statistics on the distribution of market capitalization, trading volume, volatility, quoted spread, and stock price, for our sample firms. Market capitalization is based on total shares outstanding and the stock price twelve months preceding delisting as reported by CRSP. Daily trading volume is the average daily share volume, volatility is the average daily (high-low)/low, quoted spread is the average daily closing ask-closing bid divided by the closing mid-quote, and the stock price is the average closing mid-quote as reported by CRSP. Average statistics are computed over the period between 18 and 12 months prior to delisting for 1,083 securities. Due to data limitations (i.e., CRSP does not cover the entire period), we use between 12 and 6 months prior to delisting for 14 securities and over the six-month period prior to delisting for 1 security.

The average (median) market capitalization of sample firms one year before delisting is \$149.8 (\$24.82) million. The market capitalization declines to \$12.7 (\$4.4) million at the time of delisting. Hence, the market capitalization for these firms is truly decimated before delisting occurs. The average (median) price is \$5.53 (\$3.13) and quoted spread 5.59 (4.31) percent for sample firms one year before delisting. These firms

were already relatively low-priced stocks with relatively high spreads.¹⁴ Lastly, our measures of volatility suggest that the market was very uncertain about the value of these stocks already one year before delisting with the average (median) intraday price range at 11.2 (10.3) percent. The cross-sectional distribution across characteristics in our sample is significant. For example, the market capitalization one year before delisting ranges from \$10,000 to \$42 billion and average daily share volume ranges from 132 shares to 32 million shares.

V. Delisting Effects

We first examine how delisting impacts market quality and firm value by analyzing intraday trading data for the six-month period straddling the actual delisting date in the accompanying tables. As noted above, the delisting process is protracted and these firms are on Nasdaq's watch list for delisting for an average (median) of 91 (85) days prior to their initial hearing. Following the initial hearing, delisting is not immediate, occurring an average (median) of 43 (27) days later. Investors have significant forewarning in advance of the delisting date. The delisting event itself simply confirms the fact that the firm will no longer benefit from the advantages of Nasdaq listing.

Table 5 displays the dramatic change in firm value at the delisting. Despite the advanced notice of delisting, a portfolio of delisted stocks loses nearly 18 percent of value on the delisting day on an equal-weighted basis.¹⁵ On a value-weighted basis, delisted stocks lose nearly 20 percent of value upon delisting. Delisted firms continue to

¹⁴ Spreads one year before delisting are higher, in part, from tick size effects.

¹⁵ Table 5 displays the value of buy-and-hold portfolios of delisted stocks from the day before to 60 days following delisting. We scale to a \$100 starting portfolio and follow daily changes after delisting.

lose value over the subsequent 60 trading days, showing that the lost value is not transitory.

Table 5 also demonstrates that the severity of the reason for delisting affects the market reaction on the delisting date. Bankrupt firms lose nearly 24 percent of value on an equal-weighted basis and over 35 percent on a value-weighted basis. Non-core violators lose just under 16 percent or just over 14 percent, respectively, by comparison. In fact, the severity of the reason for delisting is almost perfectly monotonically related to the loss in market value on the delisting date, suggesting that delisting returns are at least partially driven by information effects. In testing for market quality changes below, we present daily patterns in the accompanying figures to highlight changes both before and after the delisting event.

A. Market Quality around Delisting

Our first hypothesis is that market quality deteriorates after delisting from Nasdaq. We test this hypothesis by comparing market quality measures in the three month period preceding delisting to market quality measures in the three month period following delisting. In Table 6 we report the equally weighted cross-sectional average (or median) of the individual security averages both pre- and post-delisting. The superscript, ^{OTCB}, indicates measures computed only with OTC Bulletin Board data. The last column reports percentage differences between pre- and post-delisting statistics with significance tests (pair-wise t-tests for means and Wilcoxon tests for medians).

Table 6 reveals that share volume declines by two-thirds from 386,000 to 133,000 shares per day, quoted spreads almost triple from 12.1 to 33.9 percent, and effective spreads triple from 3.3 to 9.9 percent when stocks are delisted from Nasdaq. In addition, average quoting activity declines significantly, from 25 to 5 quote updates per day. Our

volatility measures also point to declining market quality. Average intraday return volatility more than triples from 4.4 to 14.3 percent and percentage intraday price ranges almost double from 34.4 to 61.5 percent. These economically and statistically significant changes clearly demonstrate that Nasdaq delisting decimates market quality.

In Figures 2 through 5, we illustrate that market quality deteriorates dramatically on the delisting day, indicating that a 3-month window partially obscures the shock to trading upon delisting. Figure 2 shows that trading activity declines markedly following delisting. The top panel shows significant volatility in daily share volume and the number of trades preceding a marked drop at delisting. This volatility in the two weeks preceding delisting suggests that traders have different views on the likelihood of an ultimate delisting of (at least some) sample stocks. The bottom panel illustrates that the decline in dollar volume is much smoother than the decline in share volume. The bottom panel also shows that stock prices decline steadily in the three months preceding delisting, from slightly above \$1 to near \$0.80 per share. Since the average stock price stabilizes after delisting, we infer that a significant part of the price decline prior to the delisting reflects the anticipated delisting.

We illustrate quoting activity changes in Figure 3, presenting data for the 871 stocks that trade on the OTC Bulletin Board after delisting. In the top panel, quoting activity declines significantly at the delisting date from about 15 to about 5 quote updates per day. The bottom panel illustrates the change in quoted spreads around delisting. Quoted percentage spreads creep up gradually in the period leading up to delisting (as the average stock price declines) and jump dramatically on the delisting day from about 14 to 40 percent. However, part of this increase is temporary with quoted spreads stabilizing at about 25 percent within three months of delisting.

We illustrate the change in effective spreads in Figure 4, again including data only from the 871 stocks that trade in the OTC Bulletin Board after delisting. Effective spreads hover around 4 percent prior to delisting and increase dramatically to around 18 percent on the delisting date. As with quoted spreads, post-delisting effective spreads decline gradually, stabilizing near 13 percent.

Figure 5 illustrates changing volatility around delistings measured as the event-time cross-sectional average of: (i) the standard deviation of intraday transactions returns; and (ii) the intraday price range (high-low/low). Clearly, the delisting event itself is associated with a six- to eight-fold increase in volatility on the day of delisting, reverting quickly after the delisting day to a relatively stable two-fold increase after about a month.

B. Market Quality and Violation Severity

We next test whether the deterioration in market quality is related to the severity of listing violation. Table 7 reports market quality changes by severity and illustrates that the declines in share and dollar volume are significantly higher the more severe the violation. For example, *bankruptcy* violations experience significant declines in median volume from 117,000 to 59,000 shares per day and from \$56,000 to \$3,000 per day. By comparison, *non-core* violations result in declines from 27,000 to 20,000 shares per day and from \$13,000 to \$6,000 per day. The increases in percent quoted and effective spreads are also higher the more severe the violation. Time-weighted quoted spreads increase from 11 to 50 percent for *bankrupt* firms but only from 13 to 30 percent for *non-core* violators. The pattern for effective spreads is similar, but muted since we are only able to calculate effective spreads for OTC Bulletin Board stocks. The increase in volatility is larger for *bankrupt* firms (4.2 to 22.1 percent) than for *non-core* violators (4.6

to 11.2 percent) as well. Virtually all the changes in market quality are statistically significant.

C. Market Quality and the Listing Hierarchy

We also test whether the deterioration in market quality is related to the number of levels that the delisted firm drops in the listing hierarchy in Table 8. As indicated by the spread changes in Table 7, the drop in market quality appeared to be muted for firms dropping to the OTCBB. We assign each security to an originating market based on whether it traded in that market anytime during the three months prior to delisting. Similarly, we assign the each security to a destination market if it trades in that market during the three months post-delisting. We report equally weighted cross-sectional average (and median) of the individual security averages for ± 3 months around delisting.

By and large, market quality deteriorates more the further the firm falls in the listing hierarchy. At the extremes, market quality deteriorates more for firms falling from the NM to the Pink Sheets (Group 2) than for firms falling from the SC to OTC Bulletin Board (Group 3). The intermediate groups (1 and 4) generally fall in between these two extremes. For example, consider percentage quoted spreads. The largest drop (Group 2) implies an almost fivefold increase in spreads from 9.4 to 49.3 percent whereas the smallest drop (Group 3) instead implies a doubling of spreads from 14.2 to 31.7 percent. These results also hold once we control for market of origination. Market quality declines more for moves from both the NM and SC to the Pink Sheets (Groups 2 and 4) than to the OTC Bulletin Board (Groups 1 and 3).

Macey, O'Hara, and Pompilio (2007) find that daily share volume is cut in half, spreads increase from 5.9 to 8.7 percent and volatility more than doubles for NYSE to Pink Sheet delistings. Our NM to Pink Sheet delistings (Group 2) experience similar

changes with share volume declining by almost 60 percent, quoted spreads increasing from 7.6 to 11.8 percent and volatility more than doubling as well. The decline in market quality for NM to OTC Bulletin Board delistings (Group 1) is much less dramatic, suggesting that the OTC Bulletin board provides a softer landing than the Pink Sheets.

We examine market quality changes both by market of origin and destination and the dominant reason for delisting in Table 9. Even after controlling for the markets of origin and destination, we find that market quality deteriorates significantly more for firms that engage in a more severe listing violation. Similarly, controlling for the severity of the listing violation, we find that the deterioration in market quality is larger the further the company drops in the hierarchy of markets.

D. Multivariate Analysis of Quoted Spread Changes

Table 10 presents regressions exploring the sources of quoted spread deterioration around delisting. We examine the determinants of percentage quoted spreads for delisted firms accounting for firm, market and trading characteristics. As found in previous research, the first column shows that quoted spreads are decreasing in trading volume and firm size and increasing with volatility. The second column shows that after controlling for these firm and trading characteristics, spreads are uniformly higher after delisting. The change in quoted spreads at delisting is largely due to trading and market characteristics and is not related to the reason for delisting. Consistent with the soft landing afforded by the Bulletin Board, quoted Pink Sheet spreads exceed Bulletin Board spreads after delisting. Post-delisting spreads are also significantly more sensitive to dollar trading volume perhaps indicating that the relative lack of Nasdaq market makers creates a more order driven market post-delisting.

The third column in Table 10 adds interactive dummies to test for the incremental differences between Bulletin Board and Pink Sheet spreads. Post-delisting Pink Sheet spreads are significantly more sensitive to dollar trading volume and volatility than Bulletin Board spreads. Thus, Bulletin Board listing results in a relatively more muted response to both volume and volatility, highlighting the fact that the Bulletin Board serves as a more robust trading venue and a softer landing for Nasdaq-delisted firms.

VI. The Economics of *Non-core* Delisting Criteria

The analysis above focuses on the costs facing shareholders of Nasdaq-delisted firms. The flip side of these costs is the potential net benefits to Nasdaq from enforcing the continued listing criteria. In delisting a firm, Nasdaq balances the loss in listing fees, the savings in systems and regulatory costs, and the enhanced value of the Nasdaq brand name believed to be associated with maintaining the listing standards. While we believe that *bankruptcy*, *governance*, and *core* violations are reasonable grounds for delisting, we explore here whether enforcing *non-core* requirements make economic sense. We analyze rough estimates of the costs and benefits incurred by enforcing the minimum bid price and minimum float rules, focusing on the last year of the sample (2002) to avoid discounting issues.

Using the two-day delisting drop in value for these firms, we estimate an average 15.8 percent shareholder loss from 65 *non-core* violations in 2002. Given that the aggregate market capitalization of these firms is \$422 million on the day prior to delisting, a 15.8 percent drop in value generates a total loss of \$67 million.

Calculating Nasdaq's foregone listing fees is straightforward. Figure 6 reports the lost listing fees by year both for the overall sample and *non-core* violators. We also

present total listing revenues by year to gauge the importance of lost listing fees to Nasdaq's bottom line. In 2002, continued listing fees represent about 12.5 percent of Nasdaq's \$787.2 million in revenues. That same year, Nasdaq lost \$1.5 million, or 1.5 percent, of its total listing revenues by delisting 65 *non-core* violators.

Calculating the savings in systems and regulatory costs is more challenging. Nasdaq's total expenses for 2002 were \$675.4 million with computers and equipment costs of \$147.3 million and regulatory costs of \$75.0 million. Nasdaq had 3,725 firms listed at the end of 2002 with an average daily trading volume near 1.75 billion shares. The 65 *non-core* violators represent 1.7% of all firms, but only about 0.4% of total share volume. Assuming that computer and regulatory costs are proportional to share volume, the costs savings from delisting *non-core* violators would be \$0.9 million, falling short of the \$1.5 million in foregone listing fees (and without considering the costs imposed on delisting firm shareholders).

To address whether *non-core* violations presage further problems for these firms, we track our sample of 378 *non-core* delistings for two years post-delisting. In particular, we look for subsequent problems that *non-core* violators encounter and whether these firms emerge to re-list at some later date. For a fraction of these firms, *non-core* violations presage other, more serious, problems within the firm. We estimate that 170 *non-core* violators (45.0 percent) would have been delisted for other reasons within two years--84 firms likely violate *governance* standards, 43 go bankrupt, and 43 liquidate. On the other hand, 18 firms (4.8 percent) emerge to list on the American Stock Exchange (12) or Nasdaq (6) within the following two years.

The costs and benefits of enforcing non-core standards are perhaps best illustrated by the case of Ericsson AB. Ericsson AB, a member of the Nasdaq100 index in 2002,

had a market value exceeding \$6 billion and a closing price under \$1.00 per share with 20 million shares traded per day. Ericsson AB executed a 10:1 reverse stock split on October 23, 2002, to comply with Nasdaq's *non-core* listing requirements. Ericsson stock rose from \$0.69 to \$6.38 on the day of the reverse split, losing \$0.062 per share, or 7.5% on a pre-split basis consistent with negative abnormal market reactions to reverse splits documented by Lamoureaux and Poon (1987). Ericsson AB arguably had sufficient order flow for profitable Nasdaq trading, trading nearly 3 million shares per day in the month prior, and likely would not have compromised the integrity of the Nasdaq market by remaining listed at low prices. Ericsson incurred investment banking fees and suffered a 7.5% loss in the market for violating Nasdaq's *non-core* requirements.

VII. Conclusions

We test whether market quality deteriorates significantly for 1,098 firms whose stocks were delisted from Nasdaq during the period January 1, 1999 to December 31, 2002. Delisted firms are publicly put on Nasdaq's watch list for delisting an average of 91 days prior to a formal delisting hearing and delisting occurs, on average, 43 days later. Hence, most delisting events are easily anticipated and do not provide material firm-specific information beyond the fact that the firm will no longer trade in Nasdaq's systems. Despite the advance notice for delisting, delisted firms lose 19 percent of value (on an equal-weighted basis) from the day before to the day after delisting! Since delisting itself is anticipated, prices are also depressed leading up to delisting, so that this lost value likely underestimates total shareholder losses. The delisting also has dramatic and immediate effects on market quality, with volatility, quoted and effective spreads tripling and volume dropping by two-thirds on the day of delisting.

Over the six-month period straddling delisting, we find that market quality deteriorates permanently and significantly, only partially reverting from the spike on the delisting day. During the six-month window, the average stock price declines by more than 58 percent, with spreads, volatility and volume shifting permanently, highlighting that shareholders face both lost share value and higher trading costs upon delisting.

Violations of the continued listing requirements range from minor (*non-core*) infractions such as a bid price below \$1.00 to severe problems such as *bankruptcy*. We find evidence confirming the hypothesis that the deterioration in market quality is significantly greater for more severe violations. Indeed, we show that Nasdaq classifications about the severity of violation are reflected in market quality changes. The loss in firm value is related to the severity of the violation as well (*bankrupt* firms lose 24 percent whereas *non-core* violators lose 16 percent of firm value in the 2-day event window), suggesting that deteriorating market quality is economically significant for shareholders.

Nasdaq can delist firms from the National Market or from the SmallCap Market. Delisted firms may end up trading on the OTC Bulletin Board, on the Pink Sheets, or not at all. We find evidence confirming the hypothesis that firms falling further in the listings hierarchy suffer greater erosion in market quality. For delisted firms, the OTC Bulletin Board provides a softer landing relative to the Pink Sheets. These results also support the economic rationale for larger fees for listing higher in the hierarchy (National Market listing is more valuable than SmallCap listing).

After estimating the costs and benefits created from *non-core* listing standards, we argue that Nasdaq should reconsider the strict enforcement of *non-core* listing requirements on otherwise-compliant firms. Whereas delisting can have the beneficial

effect of preserving market integrity, delisting also significantly erodes market quality and destroys firm value. These tradeoffs are most relevant when listing violations are relatively minor, so that delisting appears to add insult to injury to struggling firms that violate relatively minor *non-core* standards.

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Table 1
Distribution of Regulatory Nasdaq Delistings Between 1999-2002 Across
Markets of Origin and Destination

This table presents distribution of all regulatory Nasdaq delistings of common stock and ADRs between January 1, 1999 to December 31, 2002. Delistings are defined as regulatory if they were triggered by (1) bankruptcy, or (2) violation of any of the Nasdaq delisting criteria listed in Table 1. All delistings data were obtained from Nasdaq's website (www.nasdaqtrader.com). A security is defined to originate from a market if it traded in that market anytime during the three months prior to its delisting. Similarly, a security is defined to reach a market of destination if it trades in that market anytime during the three months after its delisting. We do not consider delistings that did not trade in any market after their delisting. NM refers to the Nasdaq National Market, SC refers to the SmallCap Market, OTCBB refers to the OTC Bulletin Board Market operated by Nasdaq and PS refers to the Pink Sheets Markets operated by Pink Sheets LLC.

	Market of Destination			Total
	OTCBB only	PS only	OTCBB and PS	
<u>Market of Origin</u>				
NM only	331	148	65	544
SC only	403	72	45	520
NM and SC	22	7	5	34
Total	756	227	115	1,098

NM to OTCBB = 423 firms

NM to PS = 225 firms

SC to OTCBB = 475 firms

SC to PS = 129 firms

Table 2
Regulatory Reasons for Delisting Nasdaq Firms Between 1999-2002

This table presents distribution of the regulatory reason for the delisting of all common stock and ADRs in Nasdaq between January 1, 1999 to December 31, 2002. All delistings data were obtained from Nasdaq's website (www.nasdaqtrader.com). Regulatory reasons for delistings are classified into four major categories in the descending order of the severity of the violation of Nasdaq's listing criteria: (1) Reasons triggered by bankruptcy filing or liquidation, (2) Reasons triggered by corporate governance issues such as SEC filing violation and public interest, (3) Reasons triggered by violation of 'core' objective listing criteria as defined by Nasdaq, and (4) Reasons triggered by violation of 'non-core' listing criteria. Since a security may be delisted for multiple reasons, we define the dominant reason as the reason triggered by the most severe violation. For example, if a security was delisted for public interest (corporate governance) as well as for having market capitalization below minimum (core listing), we will define its dominant reason for delisting as corporate governance.

Panel A: Breakdown by all the reasons mentioned for delisting Nasdaq firms between 1999-2002

	1999	2000	2001	2002	Total
All Regulatory Delistings	272	186	371	269	1,098
Bankruptcy/Liquidation reasons	11	25	71	46	153
Governance-related reasons	47	40	148	172	407
Filing	25	20	51	30	126
Public Interest	15	11	61	17	104
Shareholder Meeting	12	18	62	141	233
Proxy-related	0	4	10	12	26
Independent Directors	2	0	3	8	13
Disclosure	0	0	2	1	3
Core listing reasons	109	76	126	121	432
Market capitalization below minimum	75	53	114	107	349
Net tangible assets below minimum	106	73	120	107	349
Revenue below minimum	34	34	59	43	170
Net income below minimum	54	25	61	78	218
Round lot shareholders below minimum	1	2	1	0	4
Insufficient market makers	1	1	4	0	6
Non-core listing reasons	207	102	221	140	670
Bid price below \$1	165	75	189	91	520
Market float below minimum	61	27	54	40	182
Nasdaq-related reasons (fees, qualifications exception etc.)	32	18	23	50	123

Table 2 (Continued)**Panel B: Frequency distribution of the overlap among reasons for delisting**
(numbers in the diagonal represent delistings for that reason alone)

	Bankruptcy	Governance	Core listing	Non-core listing
Bankruptcy	50	71	16	42
Governance		102	199	138
Core listing			104	207
Non-core listing				382

Panel C: Breakdown of final sample by the dominant reason for delisting

Dominant Reason	1999	2000	2001	2002	Total
Bankruptcy/Liquidation reasons	11	25	71	46	153
Governance-related reasons	44	35	99	158	336
Core listing reasons	98	63	66	0	227
Non-core listing reasons	119	63	135	65	382

Table 3
Regulatory Reasons for Delisting Nasdaq Firms By Markets of Origin and Destination

This table presents distribution of the regulatory reason for the delisting of all common stock and ADRs in Nasdaq between January 1, 1999 to December 31, 2002 by the markets of origin and destination. All delistings data were obtained from Nasdaq's website (www.nasdaqtrader.com). A security is defined to originate from a market if it traded in that market anytime during the three months prior to its delisting. Similarly, a security is defined to reach a market of destination if it trades in that market anytime during the three months after its delisting. We do not consider delistings that did not trade in any market after their delisting. NM refers to the Nasdaq National Market, SC refers to the SmallCap Market, OTCBB refers to the OTC Bulletin Board Market operated by Nasdaq and PS refers to the Pink Sheets Markets operated by Pink Sheets LLC. Regulatory reasons for delistings are classified into four major categories in the descending order of the severity of the violation of Nasdaq's listing criteria: (1) Reasons triggered by bankruptcy filing or liquidation, (2) Reasons triggered by corporate governance issues such as SEC filing violation and public interest, (3) Reasons triggered by violation of 'core' objective listing criteria as defined by Nasdaq, and (4) Reasons triggered by violation of 'non-core' listing criteria. Since a security may be delisted for multiple reasons, we define the dominant reason as the reason triggered by the most severe violation. For example, if a security was delisted for public interest (corporate governance) as well as for having market capitalization below minimum (core listing), we will define its dominant reason for delisting as corporate governance.

Panel A: Breakdown by the dominant (all) reason for delisting by market of origin				
	NM only	SC only	NM and SC	Total
All Regulatory Delistings	544	520	34	1,098
Bankruptcy/Liquidation reasons	121 (121)	24 (24)	8 (8)	153 (153)
Governance-related reasons	145 (203)	187 (200)	4 (4)	336 (407)
Core listing reasons	99 (181)	121 (240)	7 (11)	227 (432)
Non-core listing reasons	179 (311)	188 (336)	15 (23)	382 (670)

Table 3 (Continued)**Panel B: Breakdown by the dominant (all) reason for delisting by market of destination**

	OTCBB only	PS only	OTCBB and PS	Total
All Regulatory Delistings	756	227	115	1,098
Bankruptcy/Liquidation reasons	6 (6)	99 (99)	48 (48)	153 (153)
Governance-related reasons	185 (187)	120 (173)	31 (47)	336 (407)
Core listing reasons	210 (365)	1 (37)	16 (30)	227 (432)
Non-core listing reasons	355 (552)	7 (66)	20 (52)	382 (670)

Table 4
Descriptive Statistics for Delisted Firms One Year before Delisting

This table presents descriptive statistics for 1,098 securities that were delisted in Nasdaq between January 1, 1999 to December 31, 2002. All statistics are computed using data from CRSP. Average statistics are computed over the period between 18 months and 12 months prior to delisting for 1,083 securities, between 12 months and 6 months prior to delisting for 14 securities and over the six-month period prior to delisting for 1 security.

	Mean	Median	Minimum	Maximum
Market Capitalization one year before delisting in \$millions	149.78	24.82	0.01	42,196.82
Market Capitalization at the time of delisting in \$millions	12.68	4.42	0.01	890.25
Average closing price	5.53	3.13	0.17	80.51
Average daily share volume (in shares)	200,357	47,366	132	32,221,055
Average daily dollar volume (in \$000)	2,560.35	139.24	0.02	547,583.01
Average quoted spread at close (\$)	0.1669	0.1243	0.0134	2.4567
Average percentage quoted spread at close	5.59	4.31	0.16	115.73
Average standard deviation of close-to-close return in %	8.31	7.62	0.88	61.00
Average intra-day transaction price range ((High-Low)/Low in %)	11.15	10.30	1.22	276.53

Table 5**Value of the Portfolio of All Nasdaq Delistings Between 1999-2002**

The table depicts the value of a \$100 investment made at the end of day -1 in an equally-weighted (value-weighted) portfolio of Nasdaq delistings. Subgroups include returns for portfolios comprised of firms violating various listing criteria, with each firm represented only once—in the subgroup of the most severe violation as ranked (in descending order of severity) from *bankruptcy* to *non-core*. The superscript, ‘*’ indicates statistical significance (at the 5% level) using a t-test under the null that the average portfolio value in day ‘t’ is the same as the value in day -1.

Equally-Weighted Portfolio						
Day	All	Bankruptcy	Governance	Core	Non-Core	
-1	100	100	100	100	100	100
0	82.25*	76.12*	78.46*	84.61*	84.23*	
1	80.95*	75.85*	76.30*	81.58*	84.50*	
10	79.53*	83.46*	71.86*	79.50*	84.69*	
20	76.74*	70.99*	70.37*	75.67*	82.73*	
30	74.85*	64.53*	68.26*	75.36*	80.68*	
40	72.76*	74.10*	67.87*	71.55*	77.10*	
50	73.74*	75.63*	66.01*	76.55*	77.40*	
60	77.76*	72.38*	70.41*	80.26*	82.57*	

Value-Weighted Portfolio						
Day	All	Bankruptcy	Governance	Core	Non-Core	
-1	100	100	100	100	100	100
0	80.37*	65.73*	80.13*	82.87*	85.75*	
1	78.87*	61.95*	79.35*	81.56*	84.21*	
10	75.59*	64.85*	75.15*	77.51*	79.87*	
20	71.65*	54.55*	73.90*	73.84*	75.28*	
30	70.51*	60.63*	70.52*	74.00*	72.65*	
40	68.10*	53.48*	71.86*	68.44*	69.95*	
50	70.14*	48.23*	69.52*	76.10*	77.61*	
60	73.35*	49.71*	71.75*	81.91*	82.53*	

Table 6
Changes in Market Quality around Delisting

This table presents changes in market quality for 1,098 securities in the six months around their delisting from Nasdaq. Securities that were delisted from the Nasdaq market (from the National Market or SmallCap Market) traded in the Bulletin Board or in the Pink Sheets or in both. All trading and quoting data were obtained from The Nasdaq Stock Market and Pink Sheets LLC. Quoting data in the Pink Sheets market is limited to the end of the day quotes. Each cell in the table represents the equally weighted cross-sectional average [median] of the individual security averages over the three-month period before and after their delisting. The superscript, ^{OTCBB}, indicates that the measure was computed only for securities that traded in the OTC Bulletin Board. The superscript, ^{*} indicates statistical significance (at the 5% level) using a paired t-test under the null that the average before delisting is the same as the average after delisting. The superscript ^{**} indicates statistical significance for the medians using a paired signed-rank test (Wilcoxon test).

	3 months before delisting (trading in NM/SC)	3 months after delisting (trading in OTCBB/PS)	Difference after – before divided by before (in %)
Daily share volume (in shares)	385,788 [33,233]	133,457 [24,845]	-65.4 [-25.2 ^{**}]
Daily dollar volume (in \$000)	353.13 [20.28]	45.03 [6.50]	-87.3 [*] [-67.9 ^{**}]
Transaction price (in \$)	1.077 [0.629]	0.674 [0.260]	-37.4 [*] [-58.7 ^{**}]
Number of quotes per day ^{OTCBB}	25	5	-80.0 [*]
Time-weighted quoted spread (in \$)	0.0847	0.1286	51.8 [*]
Time-weighted percentage quoted spread	12.09	33.56	177.6 [*]
Value-weighted effective spread (in \$) ^{OTCBB}	0.0218	0.0399	83.0 [*]
Value-weighted percentage effective spread ^{OTCBB}	3.29	9.93	201.8 [*]
Standard deviation of intra-day transaction price return in %	4.44 [3.74]	14.34 [9.05]	223.0 [*] [142.0 ^{**}]
Intra-day transaction price range ((High-Low)/Low in %)	34.41 [27.00]	61.49 [34.50]	78.7 [*] [27.8 ^{**}]

Table 7

Changes in Market Quality around Delisting by the Dominant Regulatory Reason for Delisting

This table presents changes in market quality for 1,098 delisted Nasdaq securities by the dominant regulatory reason for their delisting. Regulatory reasons for delistings are classified into four major categories in the descending order of the severity of the violation of Nasdaq’s listing criteria: (1) Reasons triggered by bankruptcy filing or liquidation, (2) Reasons triggered by corporate governance issues such as SEC filing violation and public interest, (3) Reasons triggered by violation of ‘core’ objective listing criteria as defined by Nasdaq, and (4) Reasons triggered by violation of ‘non-core’ listing criteria. Since a security may be delisted for multiple reasons, we define the dominant reason as the reason triggered by the most severe violation. For example, if a security was delisted for public interest (corporate governance) as well as for having market capitalization below minimum (core listing), we will define its dominant reason for delisting as corporate governance. Securities that were delisted from the Nasdaq market (from the National Market or SmallCap Market) traded in the Bulletin Board or in the Pink Sheets or in both. NM refers to the Nasdaq National Market, SC refers to the SmallCap Market, OTCBB refers to the OTC Bulletin Board Market operated by Nasdaq and PS refers to the Pink Sheets Markets operated by Pink Sheets LLC. All trading and quoting data were obtained from The Nasdaq Stock Market and Pink Sheets LLC. Quoting data in the Pink Sheets market is limited to the end of the day quotes. Each cell in the table represents the equally weighted cross-sectional average [median] of the individual security averages over the three-month period before and after their delisting. The superscript, ‘^{OTCBB}’, indicates that the measure was computed only for securities that traded in the OTC Bulletin Board. The superscript, ‘*’ indicates statistical significance (at the 5% level) using a paired t-test under the null that the average before delisting is the same as the average after delisting. The superscript ** indicates statistical significance for the medians using a paired signed-rank test (Wilcoxon test). The last column reports a t-test for differences in relative changes (after-before)/before for the group of bankrupt compared to the group of non-core delistings, $H_0: \text{reldiff}_{\text{bankruptcy}} - \text{reldiff}_{\text{noncore}} = 0$.

	Bankruptcy/Liquidation		Governance Issues		Core Listing Issues		Non-Core Listing Issues		$\text{reldiff}_{\text{bankruptcy}} - \text{reldiff}_{\text{noncore}}$
Number of observations	153		336		227		382		
	NM/SC	OTCBB/PS	NM/SC	OTCBB/PS	NM/SC	OTCBB/PS	NM/SC	OTCBB/PS	t-statistic
Daily share volume (in shares)	1,761,962 [117,329]	333,274 [58,831**]	225,788 [23,741]	103,226* [20,441**]	148,963 [34,735]	112,739 [28,844**]	104,310 [26,829]	73,670* [19,88**]	-3.178
Daily dollar volume (in \$000)	1593.91 [55.76]	64.04 [2.84**]	282.63 [15.69]	38.42* [4.95**]	113.38 [28.00]	76.37 [12.20**]	51.64 [13.45]	22.63* [6.25**]	-4.1*
Transaction price (in \$)	1.235 [0.755]	0.209* [0.062**]	1.275 [0.639]	0.622* [0.269**]	1.107 [0.784]	1.210 [0.433**]	0.827 [0.517]	0.629* [0.300**]	-16.96*
Number of quotes per day ^{OTCBB}	56	4*	31	5*	16	6*	12	4*	-9.28*
Time-weighted quoted spread (in \$)	0.0658	0.0655	0.0831	0.1540*	0.1064	0.1279*	0.0809	0.1349*	-7.34*
Time-weighted percentage quoted spread	11.34	49.98*	11.23	35.92*	11.60	24.74*	13.43	29.73*	1.08
Value-weighted effective spread (in \$) ^{OTCBB}	0.0216	0.0185	0.0256	0.0352*	0.0211	0.0445*	0.0191	0.0430*	-0.14
Value-weighted percentage effective spread ^{OTCBB}	3.67	15.35*	3.52	9.13*	2.61	8.18*	3.33	10.65*	6.34*
Standard deviation of intra-day transaction price return in %	4.23 [3.44]	22.13* [12.46**]	4.22 [3.46]	15.02* [9.89**]	4.69 [4.21]	12.25* [8.90**]	4.55 [3.93]	11.22* [8.33**]	1.47
Intra-day transaction price range ((High-Low)/Low in %)	43.62 [35.35]	132.63* [91.04**]	35.19 [26.78]	63.07* [35.75**]	30.95 [26.37]	42.05* [32.01**]	32.04 [25.15]	40.06* [28.50**]	10.67*

Table 8
Changes in Market Quality around Delisting by Market of Origin and Market of Destination

This table presents changes in market quality for 1,098 delisted Nasdaq securities by the market of their origin and by the market of their destination. A security is defined to originate from a market if it traded in that market anytime during the three months prior to its delisting. Similarly, a security is defined to reach a market of destination if it trades in that market anytime during the three months after its delisting. We do not consider delistings that did not trade in any market after their delisting. NM refers to the Nasdaq National Market, SC refers to the SmallCap Market, OTCBB refers to the OTC Bulletin Board Market operated by Nasdaq and PS refers to the Pink Sheets Markets operated by Pink Sheets LLC. All trading and quoting data were obtained from The Nasdaq Stock Market and Pink Sheets LLC. Quoting data in the Pink Sheets market is limited to the end of the day quotes. Each cell in the table represents the equally weighted cross-sectional average [median] of the individual security averages over the three-month period before and after their delisting. The superscript, ‘*’ indicates statistical significance (at the 5% level) using a paired t-test under the null that the average before delisting is the same as the average after delisting. The superscript ** indicates statistical significance for the medians using a paired signed-rank test (Wilcoxon test).

	Group 1		Group 2		Group 3		Group 4	
Number of observations	423		225		475		129	
	NM	OTCBB	NM	PS	SC	OTCBB	SC	PS
Daily share volume (in shares)	192,760 [53,110]	117,548* [39,807**]	1,460,762 [115,773]	333,578 [46,702**]	90,221 [20,098]	69,665 [16,940**]	168,367 [22,432]	55,543* [11,187**]
Daily dollar volume (in \$000)	143.27 [32.14]	41.67* [11.59**]	1437.67 [68.27]	81.13* [3.96**]	73.45 [11.80]	41.48 [5.51**]	134.89 [14.06]	22.11 [1.22**]
Transaction price (in \$)	1.062 [0.647]	0.689* [0.298**]	1.606 [0.918]	0.942 [0.102**]	0.865 [0.575]	0.606* [0.338**]	0.858 [0.555]	0.345* [0.114**]
Number of quotes per day	24	6*	61	-	12	4*	17	-
Time-weighted quoted spread (in \$)	0.0717	0.1071*	0.0773	0.1183*	0.0959	0.1444*	0.0861	0.1509*
Time-weighted percentage quoted spread	10.00	23.70*	9.37	49.29*	14.24	31.74*	15.86	61.95*
Value-weighted effective spread (in \$)	0.0201	0.0326*	0.0269	-	0.0220	0.0458*	0.0168	-
Value-weighted percentage effective spread	3.17	8.65*	3.10	-	3.39	10.88*	3.38	-
Standard deviation of intra-day transaction price return in %	4.21 [3.61]	10.57* [8.01**]	4.28 [3.39]	25.01* [16.04**]	4.63 [3.97]	11.07* [8.42**]	4.74 [4.09]	24.24* [17.26**]
Intra-day transaction price range ((High-Low)/Low in %)	32.32 [27.03]	44.45* [32.02**]	37.58 [30.52]	137.69* [100.12**]	33.97 [25.69]	38.84* [28.66]	43.81 [31.56]	86.67* [62.78**]

Table 9

Changes in Market Quality around Delisting by the Dominant Regulatory Reason for Delisting and Markets of Origin and Destination

This table presents changes in market quality for 1,098 delisted Nasdaq securities by the dominant regulatory reason for their delisting and by the market of their origin and by the market of their destination. Regulatory reasons for delistings are classified into four major categories in the descending order of the severity of the violation of Nasdaq’s listing criteria: (1) Reasons triggered by bankruptcy filing or liquidation, (2) Reasons triggered by corporate governance issues such as SEC filing violation and public interest, (3) Reasons triggered by violation of ‘core’ objective listing criteria as defined by Nasdaq, and (4) Reasons triggered by violation of ‘non-core’ listing criteria. Since a security may be delisted for multiple reasons, we define the dominant reason as the reason triggered by the most severe violation. For example, if a security was delisted for public interest (corporate governance) as well as for having market capitalization below minimum (core listing), we will define its dominant reason for delisting as corporate governance. A security is defined to originate from a market if it traded in that market anytime during the three months prior to its delisting. Similarly, a security is defined to reach a market of destination if it trades in that market anytime during the three months after its delisting. We do not consider delistings that did not trade in any market after their delisting. NM refers to the Nasdaq National Market, SC refers to the SmallCap Market, OTCBB refers to the OTC Bulletin Board Market operated by Nasdaq and PS refers to the Pink Sheets Markets operated by Pink Sheets LLC. All trading and quoting data were obtained from The Nasdaq Stock Market and Pink Sheets LLC. Quoting data in the Pink Sheets market is limited to the end of the day quotes. Each cell in the table represents the equally weighted cross-sectional average of the individual security averages over the three-month period before and after their delisting. The superscript, “*” indicates statistical significance (at the 5% level) using a paired t-test under the null that the average before delisting is the same as the average after delisting.

		Group 1		Group 2		Group 3		Group 4	
		NM	OTCBB	NM	PS	SC	OTCBB	SC	PS
Average Daily share volume (in shares)	Bankruptcy	461,441	162,576*	2,240,146	466,393	150,095	49,088	194,129	71,492
	Governance	155,694	141,964	557,974	195,068	106,521	46,646	193,818	63,007
	Core-listing	193,391	112,274*	613,515	183,014	111,072	118,344	110,378	25,221
	Non-core listing	141,750	98,916*	196,702	21,087	62,496	55,351	43,318	9,122*
Average Daily dollar volume (in \$000)	Bankruptcy	380.71	24.66*	2070.36	94.3	47.85	3.48*	45.55	4.44*
	Governance	140	44.48	765.31	64.54*	145.78	19.56	209.61	37.2
	Core-listing	160.35	60.82	657.4	145.84	71.25	105.9	54.16	1.27
	Non-core listing	76.49	34.09*	85.27	2.71*	25.98	17.16*	26.27	1.29*
Average Transaction price (in \$)	Bankruptcy	1.123	0.303*	1.37	0.207*	0.635	0.127*	0.601	0.068*
	Governance	1.212	0.889*	2.153	0.621*	0.883	0.56*	1.043	0.42*
	Core-listing	1.157	0.699*	0.888	13.474	1.063	0.738*	0.603	0.09*
	Non-core listing	0.931	0.695*	0.966	0.171	0.737	0.578*	0.675	0.638
Average Number of quotes per day	Bankruptcy	51	5*	65	-	18	3*	22	-
	Governance	32	7*	63	-	17	4*	16	-
	Core-listing	21	7*	21	-	12	5*	19	-
	Non-core listing	16	5*	22	-	9	3*	9	-

Table 9 (Continued)

		Group 1		Group 2		Group 3		Group 4	
		NM	OTCBB	NM	PS	SC	OTCBB	SC	PS
Average Time-weighted quoted spread (in \$)	Bankruptcy	0.0513	0.0516	0.0605	0.0683	0.1149	0.0996	0.0842	0.0724
	Governance	0.0583	0.1236*	0.1034	0.1997*	0.0815	0.1372*	0.0926	0.1841*
	Core-listing	0.0883	0.1085*	0.0655	0.1097	0.1215	0.1433	0.0631	0.0784
	Non-core listing	0.0735	0.113*	0.087	0.081	0.0885	0.1522*	0.0723	0.1902
Average Time-weighted percentage quoted spread	Bankruptcy	7.51	35.61*	9.49	53.26*	21.44	58.52*	19.58	72.38*
	Governance	9.41	22.85*	9.06	43.25*	12.54	33.2*	13.46	55.31*
	Core-listing	9.38	20.17*	9.93	59.10	13.46	25.2*	20.05	56.62*
	Non-core listing	11.2	23.06*	9.83	40.09*	15.56	33.55*	17.25	77.93*
Average Value-weighted effective spread (in \$)	Bankruptcy	0.024	0.0147	0.0233	-	0.0157	0.0325	0.0129	-
	Governance	0.0231	0.0276*	0.0354	-	0.0245	0.0396*	0.0208	-
	Core-listing	0.0197	0.0412	0.0194	-	0.0223	0.0461*	0.0137	-
	Non-core listing	0.0182	0.0344*	0.013	-	0.0204	0.0505*	0.0091	-
Average Value-weighted percentage effective spread	Bankruptcy	3.76	13.58*	3.37	-	3.48	17.53	4.56	-
	Governance	4.18	7.89*	2.82	-	3.55	9.95*	3.3	-
	Core-listing	2.09	6.92*	2.45	-	3.05	8.91*	3.27	-
	Non-core listing	3.2	8.72*	2.64	-	3.5	12.44*	1.68	-
Average Standard deviation of intra-day transaction price return in %	Bankruptcy	4.18	14.27*	4.04	25.54*	6.31	22.53*	5.06	24.14*
	Governance	3.65	7.66*	4.72	23.51*	4.09	11.06*	4.57	22.86*
	Core-listing	4.52	11.72*	4.16	31.48*	4.83	10.59*	5.23	24.03
	Non-core listing	4.28	10.24*	3.99	24.79*	4.8	10.8*	4.68	39.91*
Average Intra-day transaction price range ((High-Low)/Low in %)	Bankruptcy	44.21	84.58*	43.33	166.13*	54.9	137.7*	44.92	79.52
	Governance	31.31	37.76	30.68	104.69*	36.55	38.82	46.53	97.3*
	Core-listing	31.6	38.76*	29.31	124.35	30.29	37.68*	40.07	61.82
	Non-core listing	30.22	40.87*	31.55	102.21*	33.49	34.62	32.41	64.01

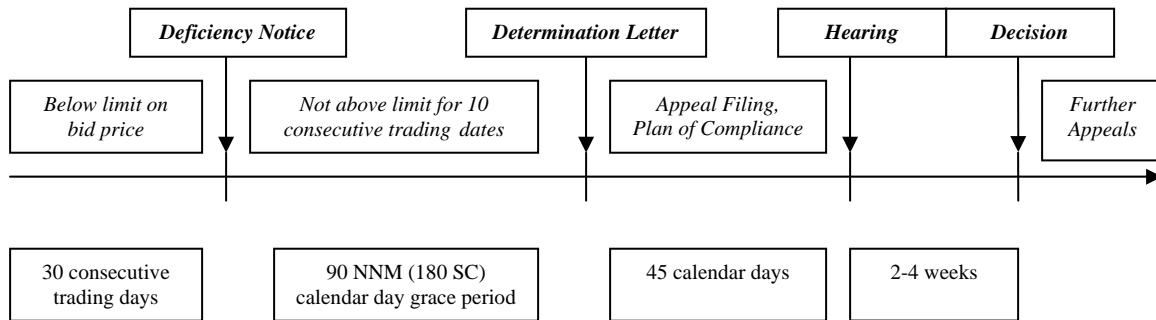
Table 10 Quoted Spread Determinants for Delisted Nasdaq Stocks

This table presents the determinants of quoted spreads for 1,098 delisted Nasdaq securities where the dependent variable is the average daily percentage quoted spread. We classify regulatory reasons for delistings with dummy variables for four major listing violation types: (1) *Bankruptcy* filing or liquidation, (2) *Corporate Governance* issues (such as SEC filing violations), (3) *Core* violations (such as minimum number of market makers), and (4) *Non-core* violations (such as minimum bid price). Nasdaq's *core* and *non-core* violations are defined in Appendix Table 1. We classify firms by their most severe violation and do not consider delistings that did not trade after Nasdaq delisting. *Delist* is a dummy variable that takes the value of 1 after delisting and 0 before. *Pink Sheets* takes the value of 1 for data compiled from trading on the Pink Sheets LLC and 0 otherwise. *Bulletin Board* takes the value of 1 for data compiled from trading on the OTC Bulletin Board and 0 otherwise. *Decimals* is a dummy variable taking the value of 0 prior to Nasdaq decimalization and 1 afterwards. *Dollar Volume* is the log of daily dollar trading volume and *Volatility* is the average intradaily trade price volatility. *Size* refers to the log of market capitalization for each firm. All trading and quoting data were obtained from The Nasdaq Stock Market and Pink Sheets LLC. Quoting data in the Pink Sheets market is limited to the end of the day quotes. Each observation in the table represents individual security averages over the three-month period before and after their delisting. Standard errors are in parentheses. Superscripts, *, ** and *** indicate statistical significance (at the 10%, 5% and 1% level).

	(1)	(2)	(3)
<i>Intercept</i>	38.96*** (2.76)	21.36*** (3.09)	20.65*** (3.05)
<i>Bankruptcy</i>	8.78*** (1.08)	1.84 (1.43)	1.79 (1.40)
<i>Corporate Governance</i>	2.15** (0.84)	0.06 (1.06)	0.01 (1.04)
<i>Core</i>	-0.11 (0.89)	-1.27 (1.14)	-1.27 (1.12)
<i>Delist*Bankruptcy</i>		3.17 (2.12)	3.74* (2.10)
<i>Delist*Corporate Governance</i>		1.80 (1.51)	1.83 (1.49)
<i>Delist*Core</i>		2.00 (1.61)	1.30 (1.58)
<i>Delist*Bulletin Board</i>		20.94*** (1.89)	20.17*** (1.96)
<i>Delist*Pink Sheets</i>		28.28*** (2.40)	27.65*** (2.71)
<i>Dollar Volume</i>	-4.19*** (0.29)	-1.33*** (0.31)	-1.35*** (0.30)
<i>Delist*Dollar Volume</i>		-6.83*** (0.37)	-5.83*** (0.42)
<i>Delist*Dollar Volume*Pink Sheets</i>			-3.77*** (0.58)
<i>Volatility</i>	2.16*** (0.07)	2.67*** (0.32)	2.70*** (0.32)
<i>Delist*Volatility</i>		-0.84** (0.33)	-1.01*** (0.32)
<i>Delist*Volatility*Pink Sheets</i>			0.60*** (0.15)
<i>Size</i>	-2.49*** (0.37)	-1.59*** (0.34)	-1.52*** (0.33)
<i>Decimals</i>	-0.72 (0.75)	-0.94 (0.71)	-0.79 (0.70)
Adj. R ²	0.62	0.69	0.70

Figure 1: Timeline of Delisting Process

Panel A. Bid Price Limit or Market Value of Public Float



Panel B. Market Value

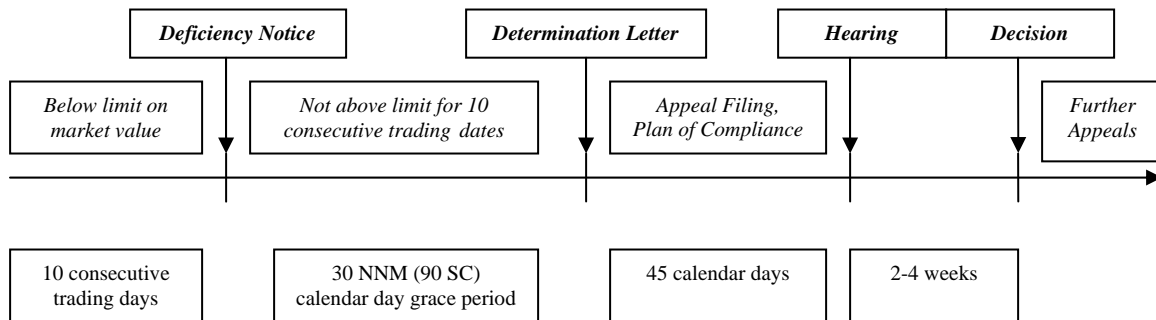
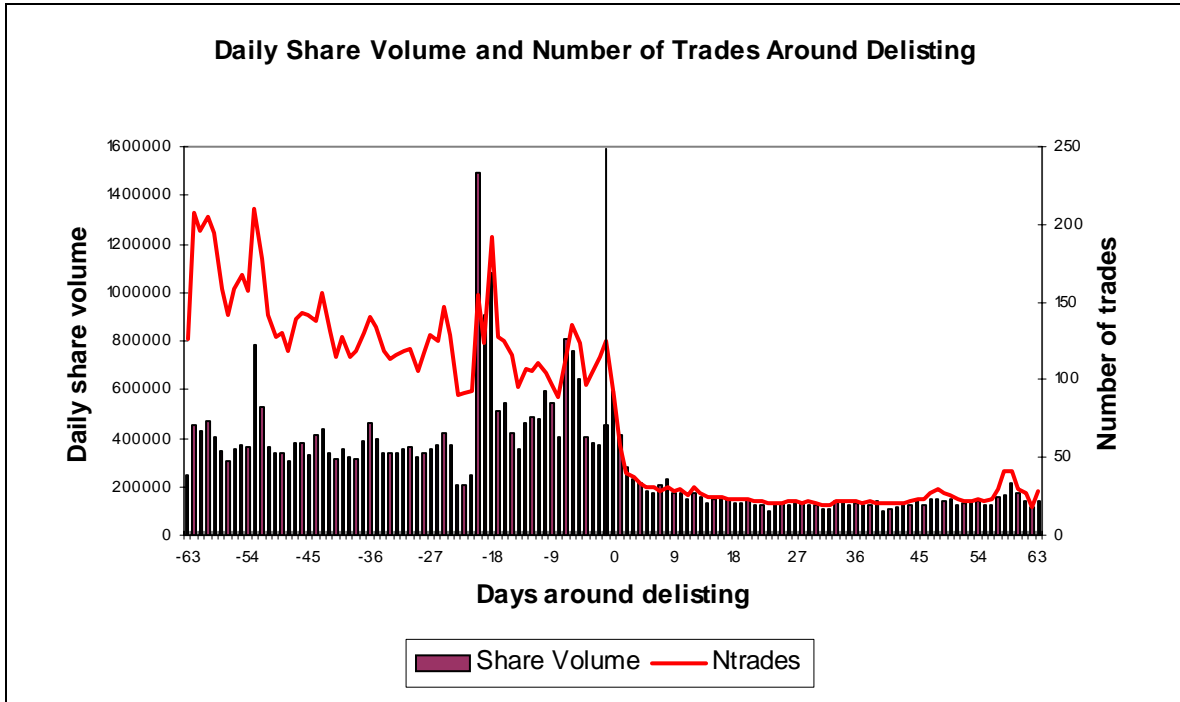


Figure 2 Daily Trading Activity of Nasdaq Delisted Securities Around Delisting

These charts show changes in the daily cross-sectional averages of measures of trading activity of 1,098 Nasdaq delisted securities in the six months around their delisting. Securities that were delisted from the Nasdaq market (from the National Market or SmallCap Market) traded in the Bulletin Board or in the Pink Sheets or in both.



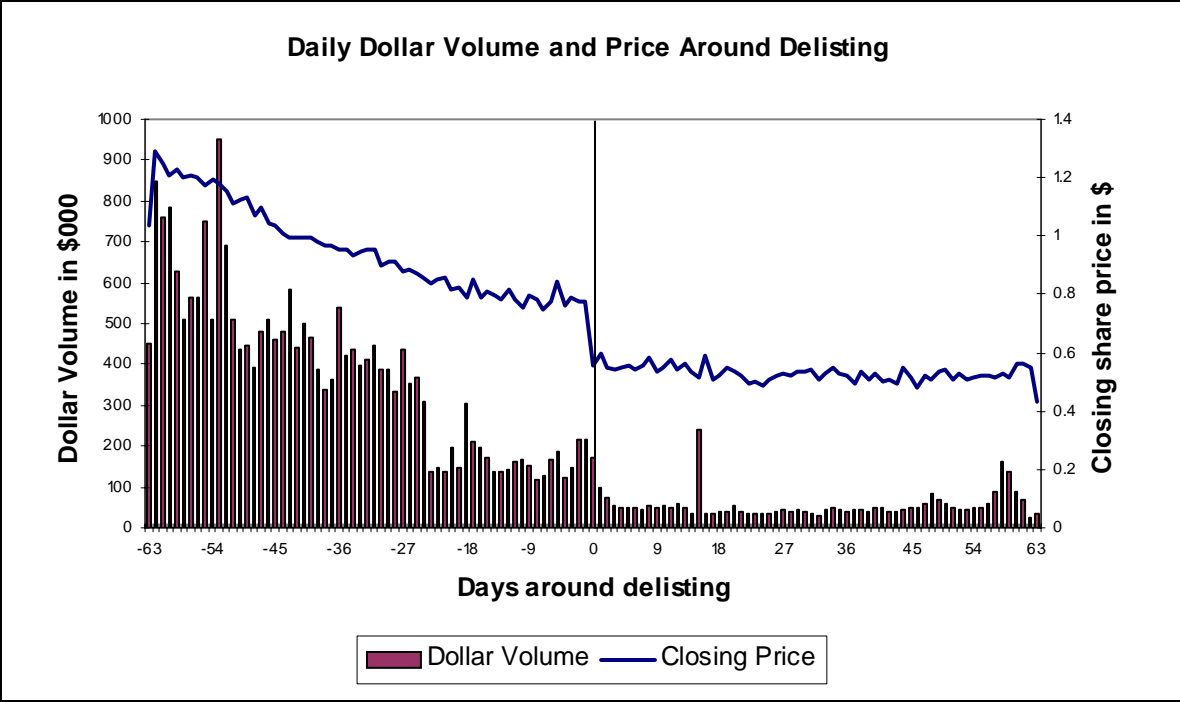
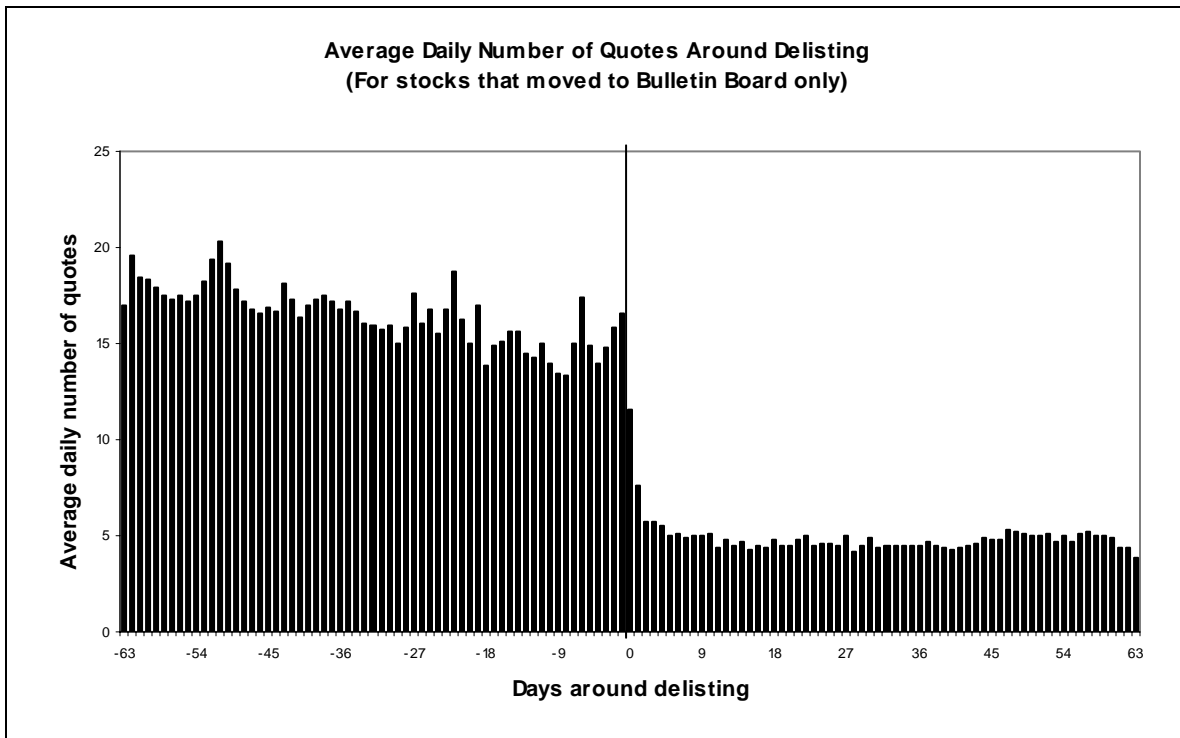


Figure 3

Daily Quoting Activity of Nasdaq Delisted Securities around Delisting

These charts show changes in the daily cross-sectional averages of measures of quoting activity of 1,098 Nasdaq delisted securities in the six months around their delisting. Securities that were delisted from the Nasdaq market (from the National Market or SmallCap Market) traded in the Bulletin Board or in the Pink Sheets or in both. Change in the average number of quotes is presented only for 871 securities that traded in the OTC Bulletin Board. Change in the dollar and percentage quoted spread is based on the closing quote of the day.



Average Dollar and Percentage Quoted Spreads At Close Around Delisting

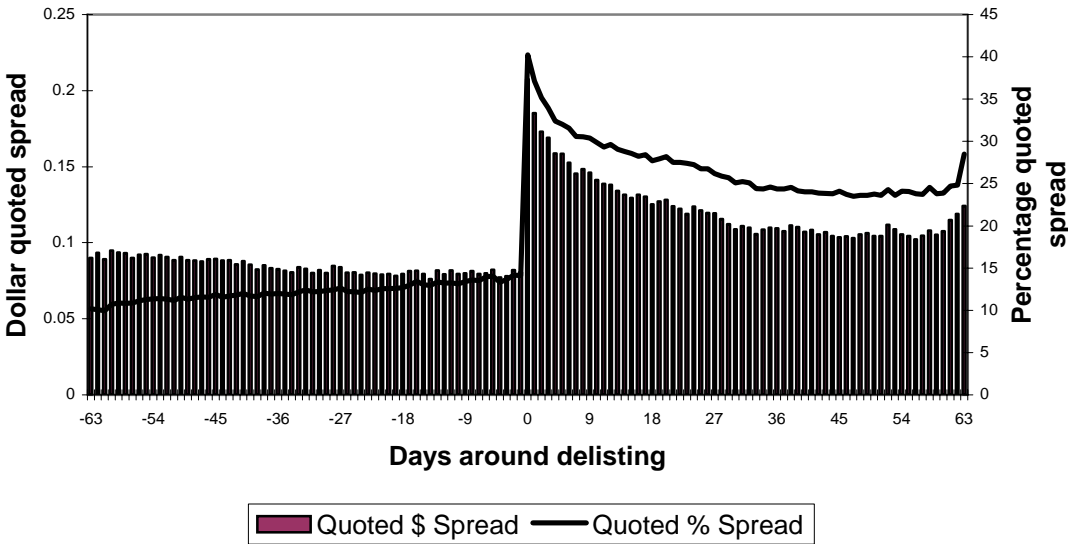


Figure 4
Change in Daily Effective Spreads around Delisting

This chart shows the change in the daily cross-sectional average effective spread of 871 Nasdaq delisted securities in the six months around their delisting. These securities were delisted from the Nasdaq market (from either the National Market or the SmallCap Market) and traded in the OTC Bulletin Board after delisting. Intra-day quoting data were not available for securities that were delisted from the Nasdaq market but traded in the Pink Sheets after delisting.

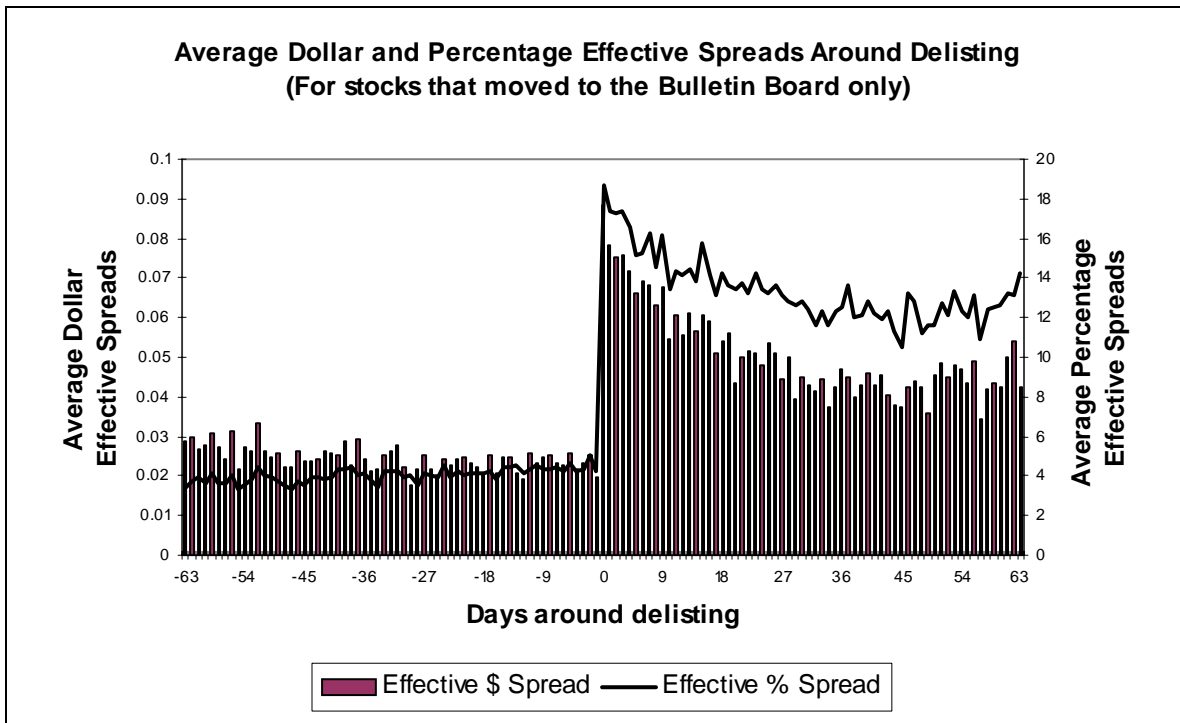


Figure 5
Volatility around Delisting

These charts show changes in the volatility measures of 1,098 Nasdaq delisted securities in the six months around their delisting. Securities that were delisted from the Nasdaq market (from the National Market or SmallCap Market) traded in the Bulletin Board or in the Pink Sheets or in both. Intra-day price volatility for day 't' is the cross-sectional average of the standard deviation of intra-day transaction return in day 't'. Intra-day price range for day 't' is the cross-sectional average of the intra-day price change of each security in day 't'. Price range is computed as the ratio of the difference between the highest price and the lowest price over the lowest price.

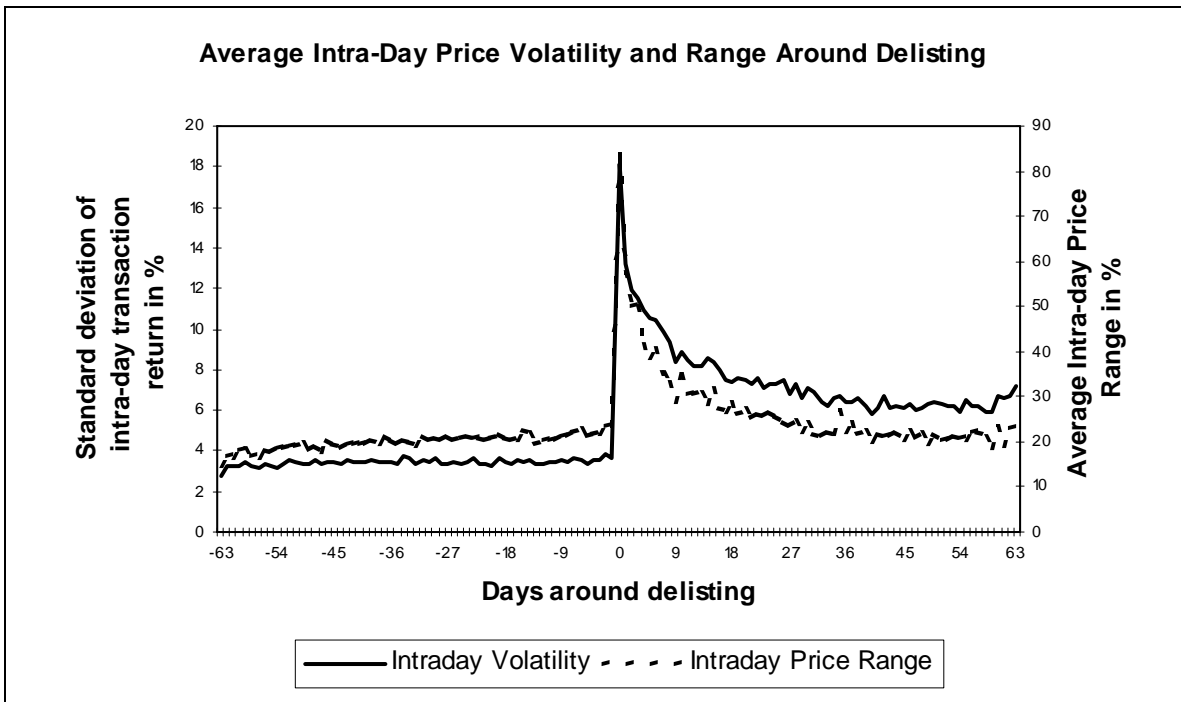
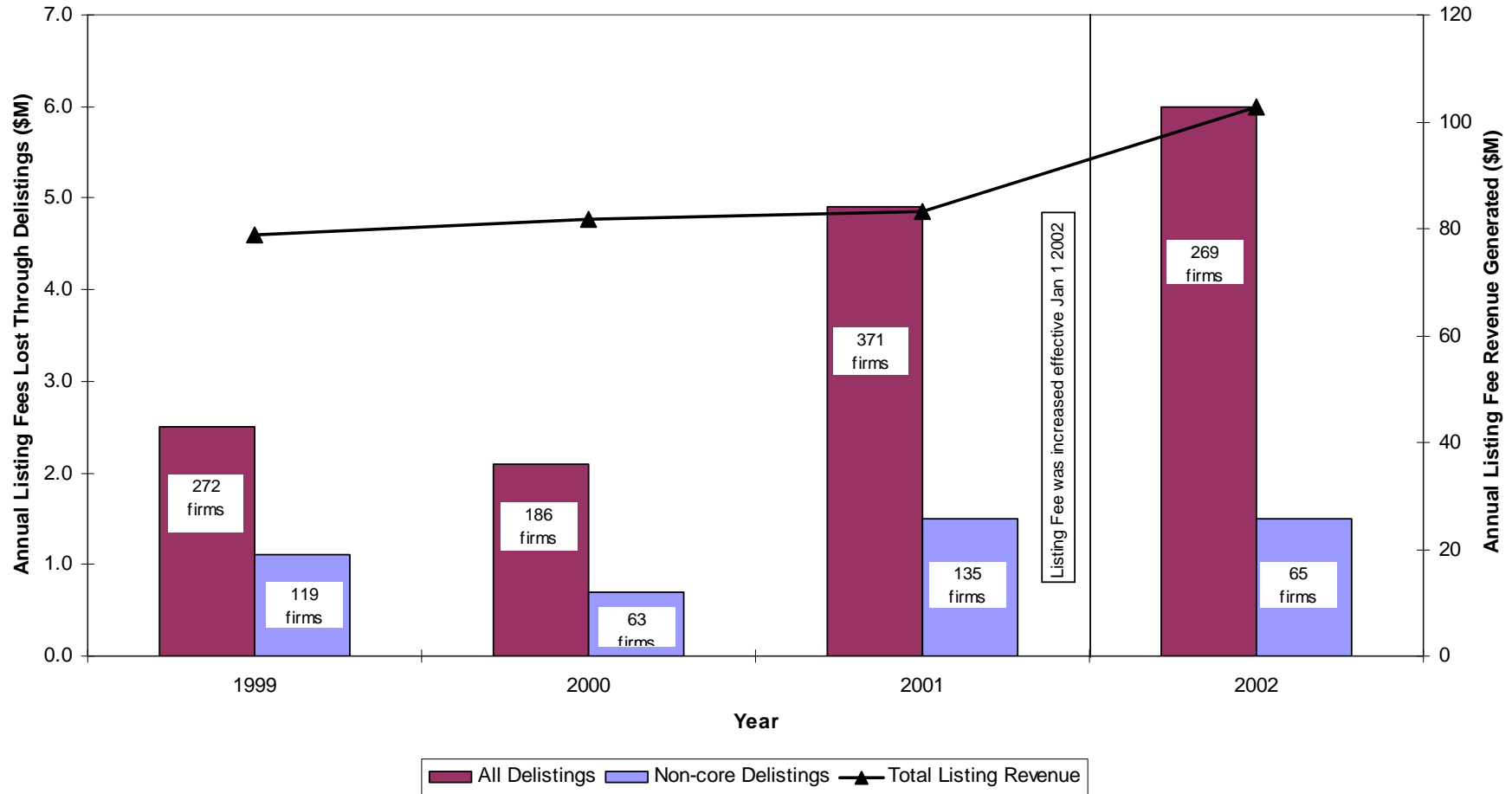


Figure 6
Annual Listing Fees Lost and Earned by Nasdaq Between 1999-2002



Appendix A: Nasdaq Maintenance Standards

The Appendix Table outlines the current Nasdaq maintenance standards. Notable changes to the listing requirements during our sample period include:

- Effective June 29, 2001, the minimum net tangible assets for NM-listed stocks was increased to \$10 million from \$4 million, and the minimum bid price was reduced from \$5 to \$3. At the same time, the minimum net tangible assets for SC-listed stocks were increased from \$2 million to \$2.5 million. Until November 1, 2002, companies could qualify under either the new or the old standards.
- There was a temporary moratorium of the minimum bid price and market value of public float requirements in effect between September 27, 2001, and January 2, 2002. This moratorium was declared after many Nasdaq stock prices fell in the spring of 2001 and further depressed in the wake of the terrorist attacks on September 11, 2001.
- On Dec. 12, 2001, Nasdaq reinstated an amended bid price rule as a pilot (1/2/2001-12/31/2003). For NM-listed stocks, the original minimum bid price requirement was reinstated. For SC-listed stocks, the minimum bid price requirement was reinstated, but with a 180 day grace period.
- On Jan. 30, 2003, Nasdaq extended an amended version of the pilot until Dec. 31, 2004. For NM-listed stocks, the grace period was extended to 180 days, with an additional 180 days available if the firm was able to demonstrate compliance with core NM initial listing criteria. For SC-listed stocks, the 180-day grace period was supplemented with an additional 540 days (18 months) if the firm could demonstrate compliance with core SC initial listing criteria.

Appendix Table 1--Nasdaq Maintenance Standards

Until November 1, 2002, companies may qualify for continued listing under either the new or former standards (in parentheses). After that date, the new rules apply. For NM stocks, either Marketplace Rule 4450(a) or Marketplace Rule 4450(b) has to be satisfied.

Nasdaq National Market

	Standards	Marketplace Rule 4450(a)	Marketplace Rule 4450(b)
Core requirements	Net Tangible Assets ¹⁶	\$10 million (\$4 million)	N/A
	Market Capitalization		\$50 million
	Total Assets	N/A	OR (\$50 million
	Total Revenue		AND \$50 million)
	Round Lot Shareholders	400	400
	Market Makers	2	4
Non-core requirements	Public Float (shares) ¹⁷	750,000	1.1 million
	Market Value of Public Float	\$5 million	\$15 million
	Minimum Bid Price	\$1.00	\$3.00 (\$5.00)

Nasdaq SmallCap Market

	Standard	Marketplace Rule 4310(c)
Core requirements	Shareholders' Equity (Net Tangible Assets)	\$2.5 million (\$2 million)
	Market Capitalization	OR \$35 million
	Net Income (most recently completed fiscal year or 2 of the last 3 years)	OR \$500,000
	Market Makers	2
	Round Lot Shareholders	300
Non-core requirements	Public Float (shares)	500,000
	Market Value of Public Float	\$1 million
	Minimum Bid Price	\$1.00

Corporate Governance Requirements (Marketplace Rules 4350 and 4351)

Distribution of Annual and Interim Reports	Solicitation of Proxies
Independent Directors	Conflicts of Interest
Audit Committees	Shareholder Approval
Shareholder Meetings	Stockholder Voting Rights
Quorum	Auditor Peer Review

¹⁶ Net Tangible Assets equals Total Assets minus Total Liabilities minus Goodwill minus Redeemable Securities.

¹⁷ Public Float is defined as total shares outstanding less any shares held by officers, directors or beneficial owners of 10% or more.

Appendix B: Nasdaq Delisting Process (Source: Hale and Dorr, LLP, 2003)

Deficiency Notice. If a company does not meet the minimum bid price or market value of public float requirements for *30 consecutive trading days*, Nasdaq sends a “deficiency notice” identifying the listing deficiency and informing the company that it will be delisted after *90 calendar days* unless it meets the required minimum bid price or market value of public float for at least *10 consecutive trading days* during the 90-day cure period.

- If the deficiency is based on insufficient market capitalization, the company is notified after *10 consecutive trading days* of non-compliance and must achieve compliance for *10 consecutive trading days* within *30 calendar days*. Nasdaq’s automated computer system tracks compliance with these requirements for each listed company.
- If the deficiency is based on insufficient net tangible assets (former maintenance standards), shareholders’ equity (new maintenance standards), total assets, total revenue, or pretax income, the notice is usually triggered by public filing of an SEC report (typically a Form 10-K or 10-Q) disclosing the deficiency.

Determination Letter. If the company is not in compliance within the time period prescribed in the deficiency notice, Nasdaq sends a “determination letter” informing the company that Nasdaq has determined that the company does not meet the standards for continued listing. The company then has seven days to appeal the determination. Under Nasdaq rules, the company must publicly announce within seven calendar days that it has received a determination letter and the basis for the delisting.

Appeal to Nasdaq Panel. The company’s appeal may be made through a written submission to, or at an oral hearing before, a Nasdaq listing qualifications panel of two or three persons selected by Nasdaq. The panelists are independent representatives of the business community and cannot be employees of the NASD or any of its subsidiaries. If

an oral hearing is requested, it is generally held within 45 calendar days. The listed company must pay a fee of \$5,000 for an oral hearing and \$4,000 for a written appeal.

Plan of Compliance. In the appeal, company representatives present a “plan of compliance” – the company’s plan to achieve and sustain compliance with the Nasdaq maintenance standards. Without a credible plan, delisting is usually swift and certain. The company cannot merely assert that its stock will trade above the minimum price.

Decision. The Nasdaq panel renders its decision, typically within two to four weeks after the written submission or hearing. If the decision is to delist, the delisting becomes effective at the close of trading on the day the company is informed of the decision.

Further Appeals. The company may appeal the Nasdaq panel’s delisting decision to the Nasdaq Listing and Hearing Review Council within 15 calendar days, and the Review Council may on its own motion elect to review any decision within 45 calendar days. The NASD Board of Governors may, in its discretion, review any decision by the Review Council. Aggrieved issuers may also appeal any Nasdaq decision to the SEC or Federal court. Appeals beyond the Nasdaq panel do not delay delisting and are rarely pursued.