



Information Circular: PROSHARES

To: Head Traders, Technical Contacts, Compliance Officers, Head of ETF Trading, Structured Products Traders

From: William Slattery, Director, NASDAQ Listing Qualifications Department

DATE: March 1, 2007

The NASDAQ Stock Market LLC (“NASDAQ”) began operating as a national securities exchange for trading non-NASDAQ listed securities on February 12, 2007. As a result, certain ProShares index funds listed on other exchanges that have previously traded over-the-counter will be traded by NASDAQ as an exchange on an unlisted trading privileges (UTP) basis for the first time. See Appendix A for a listing of select ProShares Funds (“Funds”) that will commence trading on NASDAQ on a UTP basis on March 5, 2007.

Background Information on the Funds

The investment objective of the ProShares Ultra Funds (collectively the “Bullish Funds”) is to provide investment results that correspond to two times or 200%, before fees and expenses, of the daily performance of each Fund’s underlying index. The Bullish Funds will generally hold 85% of their assets in the component securities of the relevant underlying index with the remainder of assets devoted to various “financial instruments” intended to create additional exposure necessary to pursue their investment objective. These “financial instruments” include, but are not limited to, stock index futures contracts; options on futures; options on securities and indices; equity caps, collars and floors; swap agreements; forward contracts; repurchase agreements; and reverse repurchase agreements (the “Financial Instruments”), but only to the extent and in the amounts or percentages as set forth in the registration statement for the Funds.

The ProShares Short Funds and UltraShort Funds are collectively known as the Bearish Funds. The investment objective of the ProShares Short Funds is to provide investment results that correspond to the inverse or –100%, before fees and expenses, of the daily performance of the Fund’s underlying index. The investment objective of the ProShares UltraShort Funds is to provide investment results that correspond to twice the inverse or –200%, before fees and expenses, of the daily performance of the Fund’s underlying index. The Bearish Funds will generally not directly invest in the component securities of the relevant underlying index, but instead, will create short exposure to such index. Typically, 100% of the value of each Fund will be invested in Financial Instruments and money market instruments in order to achieve their investment objectives.

ProShares Advisors LLC (the “Advisor”) serves as the investment adviser to the Funds. SEI Investments Distribution Company (“SEI”) is the distributor for the Funds. JP Morgan Chase Bank, N.A. is the custodian for the Funds (“Custodian”). JP Morgan Investor Services Co. is the administrator, transfer agent and fund accounting agent for the Funds (“Administrator”).

Each Fund is part of a Trust that is an open-end management investment company registered under the Investment Company Act of 1940, as amended (“1940 Act”). Each Fund is an investment company and an “exchange-traded fund.”

As described more fully in the prospectus and statement of additional information (“SAI”) for a Fund, each Fund issues and redeems shares (“Shares”) at their net asset value (“NAV”) only in large blocks of 75,000 Shares (each block of 75,000 Shares called a “Creation Unit”), generally in exchange for a basket of securities included in the Index (“Deposit Securities”), together with the deposit of a specified cash payment (“Cash Component”). This Cash Component will generally constitute the current value of the various Financial Instruments in the case of the Bullish Funds while for the Bearish Funds the cash amount will equal the NAV of the Creation Unit. Shares of the Funds will trade at market prices that may differ from their NAV. Shares of the Bullish Funds are redeemable only in Creation Units, and, generally, in exchange for portfolio securities and a specified cash payment. Shares of the Bearish Funds are redeemable only in Creation Units in exchange for cash. Except when aggregated in Creation Units, the Shares may not be redeemed with a Fund.

Each Fund pays out dividends from net investment income, if any, to shareholders at least annually. Distributions of net capital gains, if any, are declared and distributed to shareholders annually, but the Trust may make distributions more frequently under certain circumstances.

The Depository Trust Company (“DTC”) serves as securities depository for the Shares, which may be held only in book-entry form; stock certificates will not be issued. DTC, or its nominee, is the record or registered owner of all outstanding Shares.

Each Fund’s NAV is determined shortly after 4:00 p.m. Eastern Standard Time (“ET”) on each day that the New York Stock Exchange (“NYSE”) is open for business (a “Business Day”). The NAV is available from the Trust and is also available to National Securities Clearing Corporation (“NSCC”) participants through data made available from NSCC. The value of each Index is disseminated to data vendors every 15 seconds.

The registration statement for a Fund describes the various fees and expenses for the Fund’s Shares.

Purchases and Redemptions in Creation Unit Size

NASDAQ members are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the prospectus and SIA for a Fund, and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

Principal Risks

Interested persons are referred to the discussion in the prospectus for a Fund of the principal risks of an investment in that Fund. These include tracking error risk (factors causing a Fund’s performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), stock market risk, investment style risk, interest rate risk, investment approach risk, concentration risk, non-diversification risk, issuer-specific risk, management risk, lack of

market liquidity, lack of governmental insurance or guarantee and fiscal policy risk. The Funds use investment techniques and financial instruments that may be considered aggressive, including the use of futures contracts, options on futures contracts, securities and indexes, forward contracts, swap agreements and similar instruments. In addition, as noted in the prospectuses, shares of a Fund may trade below, at or above NAV. The NAV of a Fund's shares will fluctuate with changes in the market value of the Fund's holdings. The market prices of a Fund's shares will fluctuate in accordance with the changes in the NAV as well as supply and demand.

Exchange Rules Applicable to Trading in the Shares

Trading in the Shares on NASDAQ is subject to [NASDAQ equity trading rules](#).

Trading Hours

The values of the indexes underlying the Shares are disseminated to data vendors every 15 seconds.

The Shares will trade on NASDAQ between 9:30 a.m. and 8:00 p.m.

Suitability

Trading in the Shares on NASDAQ will be subject to the provisions of [NASDAQ Rule 2310](#). Members recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer. In addition, members must possess sufficient information to satisfy the "know your customer" obligation that is embedded in the NASDAQ Conduct Rules.

Members also should review [NASD Notice to Members 03-71](#) for guidance on trading these products. The Notice reminds members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

Trading Halts

NASDAQ will halt trading in the Shares of a Fund in accordance with [NASDAQ Rule 4120](#). The grounds for a halt under NASDAQ Rule 4120 include a halt by the primary market because the intraday indicative value of the Fund and/or the value of its underlying index are not being disseminated as required, or a halt for other regulatory reasons. In addition, NASDAQ will stop trading the Shares of a Fund if the primary market de-lists the Fund.

Delivery of a Prospectus

NASDAQ members should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Funds. Product descriptions and prospectuses may be obtained through ProShares at www.proshares.com or by calling

ProShares at (866) PRO-5125. The prospectus for a Fund does not contain all of the information set forth in the Fund's registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). For further information about a Fund, please refer to its registration statement. In the event that the Funds rely upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and in the future make available a written product description, [NASDAA Rule 4420\(j\)\(2\)](#) requires that NASDAQ members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust for the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, NASDAQ members shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by a NASDAQ member to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of the Shares of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund."

A NASDAQ member carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to NASDAQ member under this rule.

Upon request of a customer, NASDAQ members also shall provide a copy of the Prospectus.

Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the "Act") regarding trading in the above mentioned exchange-traded funds.

Short Sale Rules

Transactions in ETFs will not be subject to "tick" requirements of the SEC short sale rule (SEC Rule 10a-1) or the "bid" requirements of the NASDAQ short sale rule ([NASDAA Rule 3350](#)). Short orders must be marked SHORT or SHORT EXEMPT. (See paragraph below regarding Rule 200(g) of Regulation SHO.)

Rule 200(g) of Regulation SHO

The SEC Division of Market Regulation has stated that the Division will not recommend enforcement action under Rule 200(g) of Regulation SHO if a broker-dealer marks "short" rather than "short exempt" a short sale effected in the Funds, subject to specified conditions, including that a broker-dealer executing exempt short sales will mark such sales as "short" and in no event will such sales be

marked "long". (See letter from James A. Brigagliano, Assistant Director, Division of Market Regulation, SEC, to Ira Hammerman, Senior Vice President and General Counsel, Securities Industry Association, dated January 3, 2005.)

Regulation M Exemptions

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and its "affiliated purchasers" from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Funds to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of shares of the above-mentioned Funds (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and to (ii) tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Funds for redemption does not constitute a bid for or purchase of any of the Funds' securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of shares.

Customer Confirmations for Creation or Redemption of Fund Shares (SEC Rule 10b-10)

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to the Fund for purposes of purchasing Creation Unit Aggregations ("Deposit Securities") or the identity, number and price of shares to be delivered by the Trust for the Fund to the redeeming holder ("Redemption Securities"). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemptions is subject to the following conditions:

- (1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- (2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c);

- (3) Except for the identity, number and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

SEC Rule 14e-5

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of the Funds to (1) redeem Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

- (1) such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchased; or
- (2) purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- (3) such bids or purchases are not effected for the purpose of facilitating such tender offer.

Section 11(d)(1); SEC Rules 11d1-1 and 11d1-2

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The SEC has clarified that Section 11(d)(1) does not apply to broker-dealers that are not "Authorized Participants" (and, therefore, do not create Creation Unit Aggregations) that engage in both proprietary and customer transactions in shares of the Funds in the secondary market, and for broker-dealer Authorized Participants that engage in creations of Creation Unit Aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an Authorized Participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the shares of the ETF to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830 (I)(5)(A), (B) or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat shares of the Funds, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the

extension or maintenance of credit on shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

SEC Rule 15c1-5 and 15c1-6

The SEC has taken a no-action position with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of Fund shares and secondary market transactions therein. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

This Information Circular is not a statutory prospectus. NASDAQ members should visit the Funds' website at www.proshares.com and consult the prospectus for a Fund for relevant information.

Inquiries regarding this Information Circular should be directed to:

- Will Slattery, Director, NASDAQ Listing Qualifications, at 301.978.8088
- NASDAQ Office of General Counsel at 301.978.8400
- NASDAQ Market Sales at 800.846.0477

Appendix A – ProShares Funds

Exchange-Traded Fund	Symbol	CUSIP Number
Ultra Dow30SM ProShares	DDM	74347R305
Ultra MidCap400 ProShares	MVV	74347R404
Ultra QQQ® ProShares	QLD	74347R206
Ultra S&P500® ProShares	SSO	74347R107
Ultra Russell 1000 Value ProShares	UVG	74347R529
Ultra Russell MidCap Value ProShares	UVU	74347R495
Ultra Russell MidCap Growth ProShares	UKW	74347R511
Ultra Russell 1000 Growth ProShares	UKF	74347R537
Ultra Russell 2000 Value ProShares	UVT	74347R479
Ultra Russell 2000 Growth ProShares	UKK	74347R487
Ultra Oil & Gas ProShares	DIG	74347R719
Ultra Technology ProShares	ROM	74347R693
Ultra Health Care ProShares	RXL	74347R735
Ultra SmallCap600 ProShares	SAA	74347R818
Ultra Consumer Services ProShares	UCC	74347R768
Ultra Consumer Goods ProShares	UGE	74347R768
Ultra Utilities ProShares	UPW	74347R685
Ultra Real Estate ProShares	URE	74347R677
Ultra Semiconductors ProShares	USD	74347R669
Ultra Russell 2000 ProShares	UWM	74347R842
Ultra Industrials ProShares	UXI	74347R727
Ultra Financials ProShares	UYG	74347R743
Ultra Basic Materials ProShares	UYM	74347R776
Short Dow30SM ProShares	DOG	74347R701
Short MidCap400 ProShares	MYY	74347R800
Short QQQ® ProShares	PSQ	74347R602
Short S&P500® ProShares	SH	74347R503
Short Russell 2000 ProShares	RWM	74347R826
Short SmallCap600 ProShares	SBB	74347R784
UltraShort Dow30SM ProShares	DXD	74347R867
UltraShort MidCap400 ProShares	MZZ	74347R859
UltraShort QQQ® ProShares	QID	74347R875
UltraShort S&P500® ProShares	SDS	74347R883
UltraShort Russell 1000 Value ProShares	SJF	74347R453
UltraShort Russell 1000 Growth ProShares	SFK	74347R461
UltraShort Russell MidCap Value ProShares	SJL	74347R438
UltraShort Russell MidCap Growth ProShares	SDK	74347R446
UltraShort Russell 2000 Value ProShares	SJH	74347R412
UltraShort Russell 2000 Growth ProShares	SKK	74347R420
UltraShort Oil & Gas ProShares	DUG	74347R586
UltraShort Technology ProShares	REW	74347R578
UltraShort Health Care ProShares	RXD	74347R610
UltraShort Consumer Services ProShares	SCC	74347R636
UltraShort SmallCap600 ProShares	SDD	74347R792
UltraShort Utilities ProShares	SDP	74347R560
UltraShort Industrials ProShares	SIJ	74347R594

UltraShort Financials ProShares	SKF	74347R628
UltraShort Basic Materials ProShares	SMN	74347R651
UltraShort Real Estate ProShares	SRS	74347R552
UltraShort Semiconductors ProShares	SSG	74347R545
UltraShort Consumer Goods ProShares	SZK	74347R644
UltraShort Russell 2000 ProShares	TWM	74347R834