

ACCESSING THE CAPITAL MARKETS THE LONDON STOCK EXCHANGE'S AIM: THE NEW NASDAQ?

Small-cap and mid-cap companies now face sharply increased costs for being publicly traded (due in part to the Sarbanes-Oxley Act) and substantially less following by research analysts on Wall Street. As a result, the prospects for IPOs by small and mid-cap companies are currently bleak.

That is, unless they look elsewhere.

U.S. companies thinking about an IPO should consider the Alternative Investment Market ("AIM") of the London Stock Exchange. The AIM affords a more streamlined and less costly process than an IPO in the United States. Most importantly, IPOs that could not be accomplished in the current U.S. public markets may be possible on AIM.

In the 10 years since its launch, AIM has grown into the world's most successful market for smaller, growing companies, with over \$42 billion raised by companies on the market. AIM currently has a total of about 1,400 quoted companies, of which over 220 are based outside the U.K.

Advantages

Unlike NASDAQ or the NYSE, AIM does not require that a company have any minimum market capitalization, stockholders' equity, trading volume, or share price. Many deals that are now impossible to do in the U.S. are now getting done on AIM, including IPOs in the \$20 to \$100 million range, IPOs for companies with no earnings, and IPOs where the proceeds go only to the existing investors (including venture capitalists) rather than to the issuer.

Another major advantage of an AIM offering is the nature of the AIM investors, who are mostly institutions. These institutional investors bring a longer-term perspective to the process than typical U.S. investors, and are more likely to support an issuer based on long-term prospects rather than short-term earnings results.

How it Works

The London Stock Exchange has designated certain Nominated Advisors (or "Nomads") to be the focal point of the AIM process. The issuer appoints a Nomad, who is responsible for making sure that the issuer is suitable for an AIM offering.

The Nomad prepares the prospectus and gets the issuer admitted for trading on AIM. The Nomad may also (through its brokerage and research departments) provide market-making and research for the issuer's stock. As a result of contractual arrangements, the relationship between an issuer and its Nomad extends well beyond the IPO, so that a small issuer does not end up being a stock market "orphan", as is often the case in the U.S.

Unlike in the U.S., the IPO prospectus is not filed or cleared with any U.K. regulatory authority – it is the responsibility of the Nomad. As a result, the entire process is substantially faster and cheaper than a comparable transaction in the U.S.

Additional benefits of an IPO on AIM are that there is no U.S. governmental review of the prospectus, periodic regulatory filings and other requirements are relatively light compared to the U.S., and an AIM-listed company and its officers and directors are not subject to the Sarbanes-Oxley Act.

Conclusion

Because the U.S. public markets are not now receptive to IPOs by small or mid-cap companies, the lightly regulated and less costly AIM is a viable option for U.S. companies to consider.

Our firm has been involved in several AIM transactions, including representing the issuer for the largest AIM offering at the time – a \$100 million IPO in Spring 2005 for a Texas-based energy company. We have excellent working relationships with London Nomads, brokers, and accounting and law firms.

We believe that AIM is currently most receptive to offerings by technology companies and energy companies (particularly alternative energy companies), as well as other companies whose products or services can be sold internationally.

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