AIM Advisers, Inc.
Maximizing Present & Future Value

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The Alternative Investment Market (AIM) of the London Stock Exchange (LSE)

Historic Challenges and Current Solutions for U.S. Companies on AIM

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HISTORIC CHALLENGES FOR U.S. COMPANIES ON AIM

It is first necessary to separate fact from fiction.

Fiction

Poor Share Price Performance

Over the last couple years, some market observers have commented that the share price returns on AIM were "poor" of have "underperformed", sometimes specifically referring to the U.S. companies that are listed on AIM. While arguably, the FTSE AIM All-Share Index should outperform the NASDAQ Composite given the relative risk, a return of 63% since the start of the last bull market through June 30, 2008 is quite respectable.

Index	March 3, 2003	June 30, 2008	Change	Return
FTSE AIM All-Share Index	558	907	+ 349	+ 63%
FTSE 100	3,492	5,413	+ 1,921	+ 55%
NASDAQ Composite	1,305	2,245	+ 940	+ 72%
S&P 500	829	1,263	+ 434	+ 52%
Dow 30	7,740	11,289	+ 3,549	+ 46%

The share price performance of the U.S. companies on AIM far exceeds that of the broader FTSE AIM All-Share Index. The U.S. companies returned 30% during 2007 and 15% during the first half of 2008 compared to losses of 1% and 8%, respectively, for the FTSE AIM All-Share Index.

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HISTORIC CHALLENGES FOR U.S. COMPANIES ON AIM

Fiction

Lack of Regulation and High Failure Rate

In January 2007, former NYSE CEO John Thain said he felt that AIM "did not have any standards at all and anyone could list." In March 2007, former SEC Commissioner Roel Campos said "I'm concerned that 30% of the issuers who list on AIM are gone in a year. That feels like a casino to me and I believe investors will treat it as such."

Most knowledgeable market participants in the U.S. and the U.K. agree that the due diligence on an AIM IPO is more efficient and more effective than the due diligence on a U.S. IPO. The central reason is the role of the Nomad, who owes his sole duty to the London Stock Exchange (LSE), and the Nomad's ongoing engagement with the company. That said, the LSE listened to the criticism and codified the AIM Rules for Nomads in early 2007, further increasing the scrutiny of prospective new entrants by Nomads. The LSE has also been very proactive in terms of enforcement by issuing; a public censure and £250,000 fine against a Nomad, a private censure and aggregate fine of £170,000 against four AIM-listed companies and a public censure and £75,000 fine against one of the U.S.-based, AIM-listed companies. The failure rate on AIM is only 3% which is comparable to other stock exchanges.

The capital raised on AIM in IPOs and secondary offerings has exceeded that raised on NASDAQ in each of the last three years and by an aggregate of 70%.

IPO and Secondary Offering Capital Raised	**AIM** (in US$ billions)	**NASDAQ** (in US$ billions)
2005	15.41	12.19
2006	30.71	17.38
2007	32.12	16.19
Total	**78.24**	**45.76**

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Fact

It is clear that both challenges described below often have the same root cause; poor commercial performance. There is no substitute for meeting or exceeding the expectations of the investors in the IPO and delivering positive newsflow. Nevertheless, in most cases, liquidity can be improved and additional capital can be raised.

Lack of Liquidity

While AIM's weighted average monthly liquidity during 2007 of 6% pales in comparison to NASDAQ's 31%, a straight comparison of the two markets is not appropriate since a positive relationship exists between a company's liquidity and its market capitalization with the average NASDAQ listed company commanding a market capitalization 12 times larger than the average AIM listed company. When AIM's liquidity is compared to similar sized companies on London's Main Market and those listed on the third (lowest) tier of NASDAQ, the NASDAQ Capital Market, its liquidity is greater, primarily because AIM's investor base is an ideal fit for small and medium-sized, growth-oriented companies.

The weighted average monthly liquidity during 2007 for the 82 U.S. companies listed on AIM was 5%, with the individual companies ranging from 0% to 26%. Since the average market capitalization of the U.S. companies listed on AIM is 42% larger than the broader market, the expectation is that the average monthly liquidity of the U.S. companies would be in the high single digits. There appear to be several non-company specific reasons why the liquidity of the U.S. companies listed on AIM has been muted:

1. Inability to electronically trade and settle shares issued in accordance with Reg. S
2. Institutional investors only allocate a portion of their investments to non-U.K. companies
3. U.S. companies are more aggressive with opening valuation and market communications

While actionable solutions do exist for companies in the aftermarket, it is obviously better to address these issues when planning the IPO.

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HISTORIC CHALLENGES FOR U.S. COMPANIES ON AIM

Fact

Inability to Raise Additional Capital

Brokers are different than all of a company's other professional advisers in one important respect; they earn commissions from raising capital and they only earn those commissions if a transaction completes. While there is nothing wrong with the Broker's business model, it creates a confluence of problems for a company that has not met the expectations of the investors in the IPO but is still otherwise worthy of securing additional capital.

The typical scenario is that the institutional investors sell their IPO shares, the share price declines and liquidity dries up. The Broker is a bit embarrassed since they routinely do business with the institutional investors and, more importantly from the company's perspective, there is no financial incentive for the Broker to continue publishing research on the company because their market making activities will not act as a subsidy and there is little chance they will earn additional broking commissions from a secondary offering. Without research and enthusiasm from the Broker, the company is left to fend for itself.

While the above scenario is generic in nature, and not specific to AIM, a company that finds itself in this position needs to take action. Solutions exist; however, many strategic decisions can be taken when planning the IPO to minimize these risks.

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CURRENT SOLUTIONS FOR U.S. COMPANIES ON AIM

Lack of Liquidity

While the primary goal of most companies pursuing an IPO is to raise capital for survival and/or to invest in specific growth opportunities, another common goal is to create a currency in shares for acquisitions. If a company's shares are illiquid, it's more likely that the prospective target will favor cash over shares and/or insist on an abnormally large number of shares which creates unnecessary dilution for the existing shareholders.

In addition, all other things being equal, there is a positive relationship between valuation and liquidity. As a consequence, liquidity increases the chance that the IPO investors will be satisfied with their returns, less dilution will result from secondary offerings and the employees and the board will be incentivized to perform since they often own shares and/or hold share options.

During the planning phase of the IPO, it is crucial that serious consideration be given to how to create liquidity for the shares. While actionable solutions do exist for companies to address a lack of liquidity in the aftermarket, it is obviously better to address this before it becomes a problem.

The U.S. companies listed on AIM face three unique problems which adversely impact liquidity. It's important to note that if the solution to the second problem described below is implemented, then the first problem becomes irrelevant. For this reason, the relative negative impact on liquidity of the first two problems is difficult to determine, however, it is an indisputable fact that the U.S. domiciled U.S. operating companies' average monthly liquidity is only 2% compared to 6% for the foreign domiciled U.S. operating companies.

The first problem is the inability to electronically trade and settle shares issued in accordance with Reg. S. The LSE and Euroclear, who manages the CREST electronic trading and settlement system, are working on a solution which appears to be acceptable to the U.S. SEC. In the interim, a U.S. company can create Depository Interests (DIs) and set up separate lines of trading; one for their existing shares that have been in issue for more than one year and are therefore no longer subject to the restrictions of Reg. S and another for those shares issued in the IPO. The former can be electronically settled within CREST system and the latter will be issued in certificated form and eligible for conversion after one year.

The second problem is that institutional investors only allocate a portion of their investments to non-U.K. companies. A U.S. company can create a top-level U.K. company, affect a share-for-share exchange and issue the IPO shares through the new U.K. company. While this solution does not come without the obvious drawbacks of having to spend additional time and having to incur additional cost, other considerations are the possible tax, definite legal and possible regulatory implications.

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CURRENT SOLUTIONS FOR U.S. COMPANIES ON AIM

Lack of Liquidity (contd.)

The possible tax implications would have to be assessed on a company-specific basis. The definite legal implications are negative for the company and lie in the fact that the U.K. provides stronger protection for existing shareholders, include; limiting the issuance of new shares for cash without existing shareholder approval, mandating tender offers from a shareholder who accumulates a shareholding of greater than 30% and disclosure of all shareholders who own more than 3%. The possible regulatory implications are positive in that the company will never have to comply with the Rules and Regulations of the U.S. SEC and the Sarbanes-Oxley Act as long as the U.K. company perfects its exemption before it has 300 beneficial U.S. shareholders. A U.S. company that lists on AIM without implementing a U.K. holding company structure may have under 500 worldwide shareholders listed on the register at the time of the IPO, however, as a public company, and given the possibility of secondary offerings and shares issued to affect acquisitions, the U.S. company ultimately has little control over how widely its shares are dispersed.

The final problem is that U.S. companies, in comparison to their U.K. peers, are more aggressive in terms of their opening valuation and market communications. The reasons are cultural and a lack of familiarity with London market practices. An AIM IPO is similar to a private placement in the U.S. with the U.K. institutions holding the shares on behalf of their clients/funds as opposed to selling them into the retail market. As such, the London-based institutional investors understand the company and monitor its performance closely. If the company does not meet or exceed the expectations set at the time of the IPO, the institutions will sell their shares into the retail market, creating one great liquidity event, however, if and when positive news is forthcoming, the retail market is not as powerful as the institutions in terms of driving liquidity. The perfect combination for an AIM IPO is to have some of each type of investor.

While it is true that the U.S. companies listed on AIM have outperformed the market as a whole on a weighted basis, the fact that AIM caters to small and medium-sized, growth-oriented companies means more companies will experience share price declines than share price gains. Of the 61 U.S. companies listed on AIM for the entirety of 2007, 43% saw share price gains and 57% saw share price declines. Of the 82 U.S. companies listed on AIM during the first half of 2008, 30% saw share price gains and 70% saw share price declines. Leaving a little "money on the table" during the IPO should help the share price in the aftermarket which will create some goodwill with the IPO investors and enhance the general market's perception of the company. In addition, IPO investors will be more willing to support a secondary offering if the need arises.

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CURRENT SOLUTIONS FOR U.S. COMPANIES ON AIM

Inability to Raise Additional Capital

In order to minimize this risk, a company needs to first give some thought as to how it intends to engage with the London-based Brokers. Then, during the planning of the IPO, the company needs to proactively work with the Broker to ensure that its long-term interests are served.

The Nomad and Broker roles are often fulfilled by the same company, however, there is a strong case to be made for the separation of these roles. The logic here is defensive as opposed to enhancing the Nomad's or Broker's performance since approximately 50% of all AIM-listed companies appoint a new Nomad/Broker at some stage. In almost all cases, the reason is because the Broker in unwilling or unable to raise additional capital for the company and not because the company is dissatisfied with the services of the Nomad.

There is also a strong case to be made for the appointment of joint Brokers. To some extent, the ability of a company to appoint joint Brokers is dependent upon the perceived strength of its proposed IPO. Most Brokers target slightly different institutional investors or different investor classes altogether with some focusing on Private Client Brokers and/or High-Net-Worth Individuals. In fact, a U.S. company may want its joint Broker to be a U.S. Broker who can augment the London Broker's efforts with Reg. D and Rule 144A investors from the U.S.

The Independent Equity Research firms also have a valuable role to play in this process since they can reach, in parallel, into many of the abovementioned investor segments. While the role of an Independent Equity Research firm in connection with an IPO is typically at the behest of the Broker, their role in secondary offerings is usually at the direction of the company and can be a crucial augmentation to, or substitution for, the Broker's efforts.

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SERVICES FOR PROSPECTIVE NEW AIM ENTRANTS

Anyone who has ever had the experience of working on an IPO, or even witnessing the process, understands that there is no shortage of complex tasks that must be completed, often very quickly.

I recognize that every executive management team and company has differing levels of sophistication and internal resources available to it, therefore, the following bundles of services are presented as a menu from which a company seeking admission to AIM can choose.

With six years of experience on AIM as the former CFO of a U.S.-based, AIM-listed company that completed an IPO and three secondary offerings, I have deep knowledge of all aspects of the market and extensive relationships in London.

Assembling the Team

- Understanding the company's specific situation, from a U.S. perspective, and advising on the process, timing and strategy of listing on AIM
- Introductions to key professional advisers, most notably Nomads and Brokers
- Assessment of all professional advisers for the selection of a final working group

It is crucial that a U.S. company seeking admission to AIM thoroughly investigates all of its options with respect to its various professional advisers. These advisers are often the key factor to a successful listing / IPO and to success in the aftermarket.

Investment Case

- Creation of the financial model and supporting business case
- Assisting the company and Broker with sizing and pricing the IPO with reference to likely prospective investor reaction
- Oversight of house and/or independent equity research
- Creation of the investor presentation which executive management will deliver

Companies get one chance to present their investment case to prospective investors, therefore, it is important that it be sound, well thought out and supported by as many facts as possible. Being viewed by prospective investors as balanced and reasonable builds credibility and assists in their risk / reward analysis and investment decision.

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SERVICES FOR PROSPECTIVE NEW AIM ENTRANTS

Accounting and Auditing

- Assessment and documentation of internal controls
- Assisting the Reporting Accountant with their four reports
- Preparing internal management accounts for audit
- Preparing supporting schedules and gathering documents for the Auditor
- Preparing U.S GAAP or IFRS financial statements for audit and inclusion in the Admission Document
- Liaising with the Auditor in connection with their detailed fieldwork

For those companies that have not been subjected to audits in prior years, this will be a significant exercise since three years of audited financial statement are required. For companies that have been subjected to audits in prior years, it's not necessary to change your audit firm; however, if they are unable to act as the Reporting Accountant, one must be engaged.

Legal

- Gathering, reviewing and summarizing documents for the Attorneys
- Assisting the company, Attorneys and Nomad with drafting the Admission Document
- Assisting the Attorneys with verifying the Admission Document, as directed by the Nomad

The verification process is quite extensive and requires supporting evidence for all statements of fact and representations from the Directors as to why they believe statements of opinion to be true. Proper preparation and drafting of the Admission Document in the first instance can save a significant amount of time and cost.

Ongoing Advisory

- Advising on the timing and size of secondary offerings and other strategic decisions
- Advising on communications with the Nomad, Broker and Investors
- Oversight of house and/or independent equity research
- Advising on the form and content of commercial and regulatory announcements
- Advising on the performance of the company's professional advisers

After having been engaged, to a greater or lesser extent, in a company's admission to AIM, I will have a vast repository of knowledge about the company, its professional advisers, investor base and the multitude of personalities involved. Admission to AIM signifies the beginning of life as a public company.

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SERVICES FOR EXISTING AIM-LISTED U.S. COMPANIES

The 82 U.S.-based, AIM-listed companies have undoubtedly had very different experiences since coming to AIM; however, there are some commonalities amongst those that face challenges.

As the former CFO of a U.S.-based, AIM-listed company, I have personally addressed the major challenges by leading the post-IPO change of Nomad/Broker on two occasions, by completing three secondary offerings and by engaging a firm to write independent equity research.

Secondary Offerings / Independent Equity Research

By virtue of the fact that AIM caters to small and medium-sized, growth-oriented companies, a handful of companies do exceptionally well, some tread water and many perform below initial expectations. The main challenge for those in the latter category is raising additional capital in a secondary offering. At this stage, there is often a disconnect between the type of investor the company's Broker is able to access (i.e. larger institutions) and the type of investor that may be interested in the company (i.e. smaller institutions, private client brokers and/or high-net-worth individuals).

A possible solution, particularly if the company's Broker is no longer providing equity research coverage, is the engagement of one of the half dozen firms in London that provides independent equity research as a service. While the research is paid for by the company, this is well understood in London with the readership viewing the research as credible. The extent of services provided by the Independent Equity Research firm can be tailored to the company's needs, however, it is important to engage with a firm that has analysts with deep expertise in your industry and focuses on companies of your current market capitalization.

The power of independent equity research is in its wide distribution, as opposed to the Broker's more narrow distribution to their trading clients, and the ability to analyze the readership download activity. Once the readership amongst institutions, private client brokers and high-net-worth individuals is determined, specific strategies can be devised to address those parties. The benefits are two-fold; to organize a targeted secondary offering and to increase liquidity in the shares for the longer term.

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SERVICES FOR EXISTING AIM-LISTED U.S. COMPANIES

Liquidity Studies

Lack of liquidity is a common criticism of AIM, however, it compares quite well to the most appropriate U.S. analog, the third (lowest) tier of NASDAQ, the NASDAQ Capital Market. Nevertheless, if a company is confident about its future prospects, it desires some level of liquidity in order to obtain a fair valuation.

The key benefits of positive liquidity are:

1. Investors are satisfied with their returns
2. Less dilution from secondary offerings
3. Attractiveness of shares to acquisition targets
4. Increased morale and excitement about the company from its employees and board who often own shares and/or hold share options

The company specific reasons for a lack of liquidity are usually not straightforward. Upon engagement for a liquidity study, I would work with executive management, and perhaps the board, as well as a number of the company's professional advisers in order to formulate actionable solutions.

Board / Audit Committee Appointments

As the former CFO of an AIM-listed company and a CPA who qualifies under the Combined Code of Corporate Governance as "having recent and relevant financial experience", I would be pleased to consider appropriate board and/or audit committee appointments.

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MARK McGOWAN'S BIO

Prior to forming AIM Advisers, Mr. McGowan was the CFO of DDD Group plc, an AIM-listed company with its corporate headquarters in Santa Monica, California. Mark joined DDD in 2001 as the then Canadian public company began preparing for its reorganization out of Canada and into the U.K. via an IPO on AIM in 2002. Mark then led several rounds of post-IPO investment into DDD, including; a strategic investment in 2004 and separate financings in 2005 and 2006 from a variety of U.K.-based investors.

As a publicly traded software company, Mark oversaw all accounting, finance and regulatory functions, including; U.S. GAAP, U.K. GAAP and IFRS compliance, corporate strategy, financial modeling, budgeting and taxation and worked closely with DDD's nomad, broker, attorney, auditor, house and independent equity research analysts, registrar, company secretary and insurance agent. In addition, Mark led the post-IPO change of nomad/broker in 2004 and 2007 and evaluated the company's options with respect to the engagement of an independent equity research firm in 2005.

Mark's strategic advice to DDD's Board and CEO assisted with the commercialization of the company's technology in 2003 with Sharp Corporation for their 3D laptop PC, with Arisawa Manufacturing in 2004 for their 3D TV and with Samsung in 2005 for their 3D mobile phone; yielding the company's single largest commercial contract. Mark attended all board meetings, assisted in the recruitment of two board members who are well-respected, international businessmen, and actively participated in all board-level decisions.

Prior to joining DDD, Mark was the Assistant Divisional Director for Grant Thornton International's Asia-Pacific Division, a Senior Manager with Grant Thornton Hong Kong and a Senior Manager in Grant Thornton's Los Angeles office from 1993 - 2001. During this time, Mark helped oversee the operations and client needs of Grant Thornton's Asia-Pacific Division, which spans 14 countries, from China to Australia and from India to Japan, with 70 offices and 3,500 employees. Mark also worked within Grant Thornton Hong Kong on internal operational issues, with the Hong Kong firm's U.S. and European clients and with a variety of Grant Thornton's Los Angeles office clients on audits, IPOs and other financial advisory assignments.

Mark started his career in 1991 with an accounting firm in Philadelphia, earned his CPA license in 1993 and earned his MBA from UCLA Anderson in 2003.