AIM Advisers, Inc.
Maximizing Present & Future Value

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About AIM Advisers
AIM Advisers helps small and medium-sized, growth-oriented U.S. companies complete IPOs on the Alternative Investment Market (AIM) of the London Stock Exchange. AIM Advisers also provides a range of services to the 56 U.S.-based companies that are already listed on AIM.

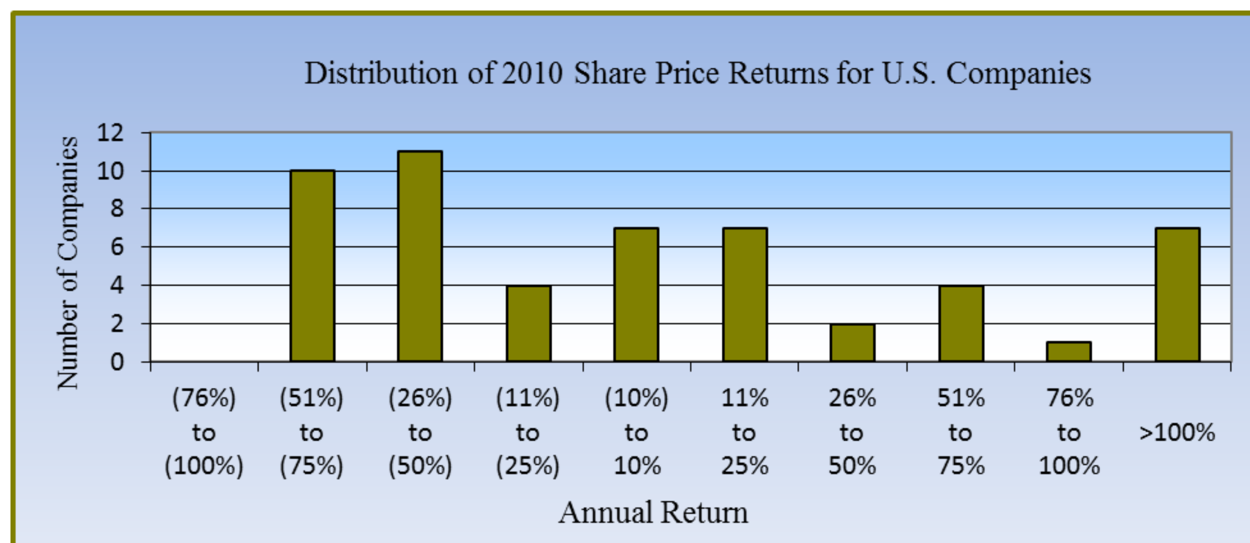
U.S. Company Performance – Share Price and Liquidity – 2010

Highlights

- U.S. domiciled companies* register a weighted loss of 9%
- Foreign domiciled U.S. operating companies** achieve a weighted return of 101%
- In aggregate, U.S. companies' weighted return 82% vs. FTSE AIM All-Share Index 43%
- Significant liquidity difference between U.S. and foreign domiciled U.S. companies

While there were 26 U.S. domiciled and 31 foreign domiciled U.S. operating companies listed on AIM as of the beginning of 2010, by the end of 2010, there were only 23 of the former but 33 of the latter. During 2010, seven U.S. companies left AIM; two cited a lack of liquidity, two were acquired (one in a positive transaction and the other in a negative transaction), one was unable to raise additional capital, one moved its listing up to NASDAQ and one was on the verge of failing. The six additions to AIM from the U.S. during 2010 included; two IPOs, two that AIM Advisers identified during the year that should have always been considered U.S. companies, one private U.S. company that reversed into an existing U.K. AIM-listed company and an existing AIM-listed company that acquired a substantial private U.S. company.

The seven U.S. companies that left AIM, the two that joined via IPO and the one that joined via reverse merger are not included in the chart and analysis below because they were not listed on AIM for the entire year and their aggregate market capitalization and effect on the share price return analysis would be immaterial. While 2009 was a 'stock picker's year', with 14 of the 57 U.S. companies posting returns of more than 100%, 2010 was a year of bifurcation with 21 of the 53 U.S. companies losing 26% - 75% of their value and seven posting triple digit returns.



* U.S. operating companies listed on AIM directly through a U.S. entity.
** U.S. operating companies listed on AIM through a U.K. or tax efficient jurisdiction with central operations and/or decision making in the U.S.

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The weighted returns in the table below were calculated using the average market capitalizations of the companies during the year, similar to how an index fund would calculate returns.

Index	Unweighted	Weighted
U.S. Domiciled Companies	3%	(9%)
Foreign Domiciled Companies	34%	101%
FTSE AIM All-Share Index	N/A	43%

The weighted return contributions for the U.S. domiciled companies were tightly packed with no one company accounting for more or less than 7%. This was not the case for the foreign domiciled U.S. operating companies. Two companies accounted for 75% of the 101% weighted return; one contributing 53% (absolute return of 201%) and the other 22% (absolute return of 397%), with the others reasonably tightly packed, ranging from a loss of 2% to a gain of 9%. If similar analysis was carried out on the constituents of the FTSE AIM All-Share Index, the likely conclusion is that a relatively small number of companies accounted for the 43% rise.

In some respects, weighted results are a self-fulfilling prophesy. Companies with increasing share prices, and therefore increasing market capitalizations, become more heavily weighted relative to those with decreasing share prices/market capitalizations. In addition, a company that is performing well has a better chance of completing a secondary offering and for its share price to hold up relative to the dilutive effects, further increasing its market capitalization and relative weighting. When these factors are controlled for by weighting the companies' returns by their market capitalizations as of the beginning of 2010, as expected, the 21 U.S. domiciled companies lost more at 25% and the 32 foreign domiciled U.S. operating companies gained less at 54%.

In terms of average monthly liquidity (see the table below), the foreign domiciled U.S. operating companies outperformed the U.S. domiciled companies on both measures and the AIM market as a whole on one of two measures. In more normal times, all of the weighted results exceed all of the unweighted results, reflecting the positive relationship between a company's liquidity and its market capitalization. The unweighted results represent the level of monthly liquidity that the average company can expect to achieve.

The reversal of this relationship for both categories of U.S companies indicates that relative trading volumes were slightly larger for companies with smaller market capitalizations. During 2009, the reversal of this relationship was very dramatic and only existed for the U.S. domiciled companies. This was likely the result of investors exiting small companies in which they were no longer comfortable with the risk/reward relationship. While this may have still been the case for the U.S. domiciled companies during 2010, as evidenced by their share price underperformance relative to the foreign domiciled U.S. companies and the AIM market as a whole, the reversed relationship for the foreign domiciled U.S. operating companies likely reflects a slight bias towards investment in smaller companies that are viewed as undervalued.

Average Monthly Liquidity	Foreign Domiciled U.S. Operating Companies	U.S. Domiciled Companies	Entire AIM Market
Weighted	3.88%	1.26%	4.24%
Unweighted	4.04%	1.45%	2.80%

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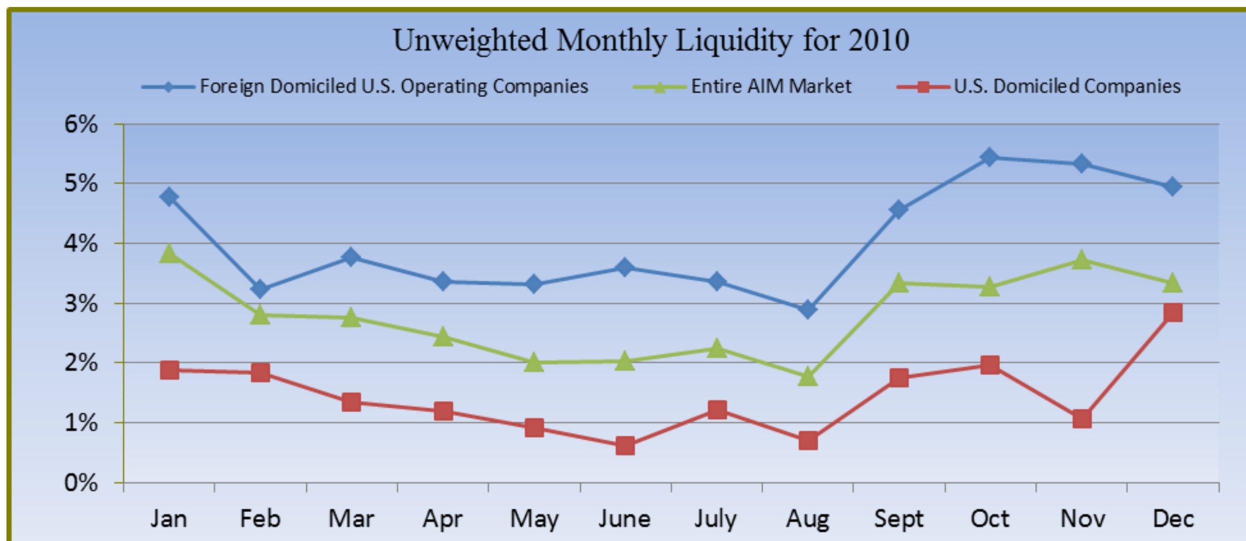
The chart below provides the monthly detail of the unweighted liquidity for each of the three categories in the table on the previous page. The slight negative slope during the first eight months is noticeable as is the more dramatic positive slope during the final four months. It will be interesting to examine if this brief trend of increased liquidity continues into 2011, plateaus as the 'new normal' or recedes.



The key takeaway from the chart above is that there is a liquidity advantage for U.S. companies that list on AIM via a U.K. holding company. The four main reasons being:

1. Once the Reg. S period expires, the IPO shares can trade directly within CREST
2. Pre-IPO shares not subject to Reg. S can immediately trade directly within CREST
3. Articles of incorporation fully conform to U.K. law providing comfort to U.K. investors
4. Institutional investors only allocate a portion of their investments to non-U.K. companies

Nevertheless, irrespective of where a company is domiciled, liquidity can be improved. The reasons for a lack of liquidity are often company specific and not obvious. As a consequence, thoughtful and thorough investigation is needed in order to formulate actionable solutions. Several strategic decisions can be taken during the planning of the IPO to minimize the risk of lack of liquidity becoming a problem in the first instance; including, selection of the most appropriate Nomad, Broker(s), financial PR/IR firm and Independent Equity Research firm.

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