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## Plugged In

### Sarbanes-Oxley Helps Fill Coffers

**By Mark Veverka**

AMERICAN INVESTMENT BANKERS ARE STARTING to take aim at the dearth of initial public offerings in their home turf.

In 1995, the London Stock Exchange launched the AIM market as an alternative to Nasdaq for smaller emerging-growth companies to go public. It's rapidly become a leading exchange for tech IPOs.

The AIM had 519 IPOs in 2005, compared with only 45 on Nasdaq. These deals raised \$11.5 billion, versus around \$2 billion for new listings on Nasdaq. Of course, the average amount raised per deal still tilts in Nasdaq's favor, but that's mostly because only bigger companies can afford the high regulatory costs of the U.S. market, says investment banker Giles McNamee, founder of McNamee Lawrence & Co., a boutique focused on mid-market growth companies.

"There is a market providing capital to emerging companies, and it's not in North America," as McNamee puts it.

Why is such a high proportion of smaller IPOs getting done across the pond? One major reason is that bountiful U.S. private-equity funding sources offer a big inducement for small domestic companies to stay private. But there are others. Depending on who you talk to -- and where their bread is buttered -- the high cost of going and staying a public company in the U.S. is also a big deterrent. Investment bankers who'd like to earn more IPO fees and CEOs who'd like to spend less on meeting U.S. accounting standards are two major proponents of this view.

The estimated cost of going public on AIM in London is about 30% less than on Nasdaq, says McNamee, citing a study by Canadian investment and research boutique Canaccord Adams. What's more, the cost of keeping a public listing on AIM is 60% less than on Nasdaq, he says.

To be sure, the LSE was careful to limit the expense of going public on its nascent exchange and secured several tax breaks for companies, their owners and investors. And it doesn't make sense to list on AIM unless your company does some international business. But today most technology companies do, McNamee says.

Yet for all of AIM's evident attractions, the lackluster U.S. IPO market is mostly attributable to corporate fears about the high costs created by the layers of accounting rules and regulations mandated by Sarbanes-Oxley.

Paul Deninger, chairman of Jefferies Broadview, a technology investment bank that underwrites smaller tech IPOs, favors re-writing Sarbanes-Oxley. And he believes that sentiment is growing in support of his position. He contends the reforms were designed to prevent future Enrons and Tycos, but have so overburdened smaller companies that they are being herded into the net of private equity through buyouts.

Deninger recently interviewed former Federal Reserve Chairman Alan Greenspan as part of a presentation at technology conference in Boston. Greenspan, says the investment banker, indicated that a change in the regulations could be in the offing. Greenspan's point, says Deninger, was that Sarbanes-Oxley's requirement that CEOs certify their financial statements is a good thing, but that most other aspects are open for reform. Deninger, who no doubt benefits from a more robust U.S. IPO market, contends this is a vital issue for the domestic economy. To him, one of the country's great strengths -- the development and exploitation of its capital markets -- is at risk.

"I'm in a state of panic," Deninger says. "This is like watching Rome burn."

He's overstating the case, but his point is that the migration of IPO deal volume to AIM further undermines the U.S.'s intellectual and technological edge, which is already dulled by the hundreds of thousands of engineers being produced in China and India. Our higher education system still produces many world-class engineers, but not in the numbers it once did, he argues. We have already ceded the prized perch as the world's largest consumer market to China. That position once enticed many ambitious European and Asian tech firms to the U.S. Now foreign tech firms are discovering they can also go public on London's AIM or in Hong Kong. Even some of the larger Chinese IPOs have skipped the New York Stock Exchange, realizing that they can get along fine elsewhere.

"The biggest IPO in the U.S. is privatization," Deninger posits, referring to private-equity buyouts.

Based on his Greenspan interview, Deninger expects serious congressional efforts to reform "Sarbox" after its namesakes, Sen. Paul Sarbanes (D-Md.) and Rep. Michael Oxley (R-Ohio), retire following their current terms.

The AIM exchange is probably here for good, but an easing of Sarbox for smaller companies could make it more palatable for them to stay home for that time-honored American capitalist rite, the initial public offering.