Go East, young e-Company
Ezenet's move to TSE from CDNX was a breeze

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The Toronto Stock Exchange welcomed Ezenet Corp. to the fold yesterday from its former home on the Canadian Venture Exchange.

While there is nothing unusual about a company switching exchanges, this switch is different because of the way Ezenet funded a recently closed $51-million financing – understood to be the largest by a CDNX Company.

Ezenet – which describes itself as a "leading software and IT solutions provider" – raised $51.876-million via the sale of 4.6 million units, each consisting of a common share and half a share purchase warrant. Octagon Capital, Salman Partners and Acumen Capital Finance Partners were the agents on the financing, which was done through special warrants. The warrants were later qualified when Ezenet filed a prospectus.

While not unique, the manner in which the three agents were paid for their assistance has the effect of tying them to the company. Here's how:

-Instead of taking all their $3.75-million fee in cash, the agents took half in cash ($1.875-million) and the remainder in stock (166,700 special warrants.) Of the warrants granted, Octagon got 117,650, Salman received 45,225 and Acumen got 3,825.

-They were also paid 444,450 units, which can be considered as broker warrants.

As is required, those warrants – which go by various names, including compensation warrants and after-market support options – were issued on the same terms and conditions as the securities bought by investors.

Each of the 444,450 units consists of one option and half a share purchase warrant. Each option entitles the holder to buy additional units at $11.25. In turn, each unit consists of a share plus half a share purchase warrant – and a full warrant allows the holders to buy further shares at $12 a piece.

For Octagon the deal maintains one of its core features. As part of its compensation, it always asks the issuer for broker warrants.

"It is a common industry practice for the agents to receive broker warrants. We ask for them because it's our view that we provide companies, at this stage in their development, with strategic capital needed to achieve their business plans," said John Palumbo, chief executive at Octagon. "We believe they tie our interests more closely with those of the issuer," he added.

The prospectus filed for the offering details another area of involvement by the agents, and in particular, lead agent Octagon.

The prospectus shows that if Ezenet has not received a receipt from the securities commissions and it has not included "the names of two independent directors approved by Octagon … each shareholder … [shall receive the] retraction price." The retraction price is defined in the prospectus.

Octagon's two nominees were Peter Kidnie, president and chief executive at Bank of Montreal Finance Ltd., and Gerald Soloway, president of Home Capital Group Inc. It can be presumed that those directors were included at the behest of investors in the special warrant financing. Ezenet has three external directors; the other is David Murray, president of Helmsdale Financial Inc.

Despite the dealer's interest in Ezenet doing well, the stock hasn't – even though the special warrants were priced at a substantial discount to the stock's trading price when they were issued in late February.

At the time, Ezenet was trading at $15.95 – more than $4 above the price at which it sold 4.445 million special warrants. The warrants included a common share plus half a share purchase warrant. The stock (EZEa/TSE) was at $6.55 yesterday.

Ezenet, which has been around since 1978, is an example of a company that emerged after a "major transaction" with a junior capital pool listed on the Alberta Stock Exchange.

In October, 1998, Norah Capital raised $200,000 via an initial public offering in the sale of two million shares at 10¢ each. (Norah was formed by four people, three of whom are senior executives at Ezenet.)

In the same month, Norah entered into an arrangement with a certain Ezenet shareholders to acquire the company. Ezenet was deemed to have a value of $3.3–million and Norah paid for it by issuing $1.5–million common shares and $1.8-million on preferred shares. Norah then changed its name to Ezenet.