Title:
What Is Reverse Merger, And Is It For Everyone? Part 2

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Summary:
Many Reverse Mergers have been successful when done properly that is why I never consent to doing one without providing the company with the possible problems that can arise and how to deal with them.

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Article Body:
Many Reverse Mergers have been successful when done properly that is why I never consent to doing one without providing the company with the possible problems that can arise and how to deal with them.

I also provide the client with the alternatives to Reverse Merger, such as Regulation D Offering, Direct Public Offering and private placement.

One way to make sure that the Reverse merger is going to work is to buy one hundred per cent of the shares owned by the shell owner, but this is not a guarantee because there could be shares unaccounted for.

Proper due diligence is a must, and you must be immune to smooth talking salesmen.An alternative to a Reverse Merger is a Direct Public Offering, DPO.

Direct Public Offerings are increasing in popularity since the shell prices are skyrocketing and companies are becoming aware of the problems associated with Reverse mergers.

And if a company is trying to obtain financing Direct Public Offerings are preferable to a venture capital investment, venture capital firms demand a large portion of the company and will not be passive investors.

Venture capital investors will be very involved with the company and will make demands that can be detrimental to the company’s success, they may not give you enough time to put your business plan in place.

An IPO is probably out of the question because you must convince an underwriter that your company is the next Microsoft, or you will have a difficult time getting someone to do the IPO for you.

An IPO is more expensive and time consuming and will take the decision making out of your hands place it in the underwriters hands.

A DPO is targeted to affinity groups such as employees, suppliers, distributors and customers. These groups usually are familiar with the company and are loyal to it.

DPO’s are registered securities offerings that allow you to market the securities directly to the public. The Internet can be use to market the securities but if your website doesn’t have a lot of traffic nobody will know about your stock offering.

So that leaves affinity groups as your best source of funding, unless you are a google and the investors are looking for you.

As the large corporations continue to reduce their work force and are leaving a lot of talented people with the option of an unemployment check or starting their on business, we find that a lot of the job creation is being left to small businesses.

These small businesses must find capital in order to expand or to fill order, small business have created over 20 million jobs over the last 15 years while big business has been cutting them. If this creative force had the capital they could propel the economy to unheard of levels.

DPO’s fall under “SCOR” small corporate registration and are for companies doing under $25 million in revenues and have a capitalization (share market value) of less than $25 million dollars.

By doing a Direct Public Offering you are raising capital that will not be costing you monthly interest payment, and is a permanent source of funding.

You will not have to give a large portion of the company to investors, a venture capitalist will demand a disproportionate Amount. Private funding is always more expensive in terms of equity and control.

As a public company you can better negotiate future financing requirements, and use the company stock for acquisitions. In a DPO filing you only need 2 years of audited financial as compare to 3 years for other filings.

All this sounds easy but in reality it isn’t you need somebody with experience to hold your hand and guide you through the process.

You must make sure that you are ready for the commitment and are prepare to devote the required time to this endeavor. Talk to your affinity groups about the possibility of investing in your company, this will give you an idea as to who is a potential investor.

Keep updated records of your customers and friends in the community who may be contacted later on. It may become necessary to purchase a mailing list, if you are medical product company or laboratory you would know some of the Doctors in your community but not all of them.

Stay in the planning mode and take necessary step while you are preparing for your DPO, such as having one year of financials audited and having a business plan prepared and printed, so that you don’t have to incur all the expenses at once.

Give us a call so that we can start planning together, the more prepare you are the less you will have to rush later, everyone everything done yesterday but the process takes time.

Regulation D Offerings: This rule provides an exemption from the registration requirements of section 5 of the Securities Act of 1933. Such transactions are not exempt from the antifraud civil liability, or other provisions of the federal securities laws. (See my article on Regulation D (504) offering.

Nothing in these rules obviates the need to comply with any applicable state law relating to the offer and sale of securities.

Rule 506: Provides an exemption for limited offers and sales without regard to the dollar amount of the offering. This offer does not limit the number of accredited investors, but the nonaccredited investors is limited to 35. for a description of accredited and nonaccredited investors see my article on Regulation D (504) offering.

Rule 505: Offerings may not exceed $5,000.000.00 less the total dollar amount of securities sold during the preceding 12 months period under rule 504 or 505. This exemption limits the number of nonaccredited investors to 35 but has no investor sophistication standards.

Rule 504: Offerings allows business to raise a maximum of $1,000,000.00 in a twelve month period, under Rule 504, Rule 505 or section 3 of the act a business can raise only $500,000.00 by the sale of securities to persons residing in the states of Montana and Alaska, which have no disclosure law. In states that have disclosure laws companies can raise up to $1,000,000,.00.

Rule 504 has no prescribed disclosure requirements, no limit on the number of purchasers. Offering under Rule 504 are relatively simple to prepare, which reduces the cost and delay and does not require an underwriter.

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