Title:
What Is Reverse Merger, And Is It For Everyone? Part 1

Word Count:
840

Summary:
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Keywords:
15c211, reverse merger, direct public offering, regulation d, pink sheets

Article Body:
A reverse merger is a method used by many small and mid-cap companies to initially go public, its the purchase of, and reverse merger into, an existing public shell company. This is inexpensive compared with conventional Initial public offerings (IPO). This is also a simplified fast track method by which a private company can become a public company.

In a reverse merger, an operating Private company merges with a public company that has little or no assets, nor known liabilities (the "shell"). A shell is what remains of a once public company that has ceased to operate, by going bankrupt or liquidation of assets. In some rare instances, the shell may have some amount of cash remaining for investment into the new enterprise. The public corporation is called a "shell" since all that exists of the original company is its corporate shell structure and shareholders. The private company owners obtain the majority of the shell corporation's stock (usually 90-95%) through a new issue of stock for the private enterprise or asset.

The public corporation will normally change its name to the private company's name and elect a new Board of Directors which will appoint the officers. The public corporation will usually have a base of shareholders sufficient to meet the 300 shareholders requirement for eventual admission to quotation on the NASDAQ Small Cap Market or American Stock Exchange (if the private company's financial condition substantiates other NASDAQ or AMEX requirements). The company must file a form S-4, this form is use to register securities in connection with Business combinations and exchange offers. although some shells have as few as 35-50 shareholders, and are currently listed (or can apply for listing) on the OTC Bulletin Board or the NQB Pink Sheets.

A Reverse Merger may be the quickest way to go public but is it the best?Lets look at a few drawbacks of using a Reverse merger to take your company public.

(1). The cost of the shell: the price of corporate shells has skyrocketed over the last couple of years, due to increased SEC scrutiny and demand for shells by Chinese companies looking to go public and trade in the U.S.

The price of public shells today start at $500,000.00 and people are paying it. With all the other expenses the final cost of doing a Reverse Merger could be close to one million dollars.

(2). Greedy shell owners: The shell owner not being satisfied with the $500,000.00 Plus he gets for the shell and usually keeps 5-15% of the shares for himself.

The shell owner’s shares will come out and cause problems for your share price when you least expect it, even if he sign an agreement not to sell for a year, he can not be trusted, it’s the nature of the beast, greedy and slimy like all snakes.

Don’t let the shell owner dictate to you and insert a stipulation in the contract forbidding you to do a reverse split, after all he needs you more than you need him, you can go public without him but he can’t get his money without you.

(3). The smooth talking consultant that can sell ice to an Eskimo in the middle of winter. He will paint a rosy picture and not warn you of possible bumps in the road to the public square.

Often the consultant may be the shell owner at the same time or at least own a piece of the pie, and is disguising his ownership with the help of a Lawyer.

The consultant should have financial industry experience, if he doesn’t have a website, most likely he does not want the visibility that the website provides and is operating in a stealth manner, under the regulators radar screen.

A website provides a open forum for consultants to do business but many shy from it because they do not want the regulators to see what they are doing, many have been barred by the SEC from having any involvement with securities transactions.

I keep a website and write articles because I want the visibility they provide.

In many cases if you type the name of the consultant into google you will be able to see if they have been convicted by the SEC of securities fraud in the past.

(4). Due diligence: proper due diligence can save a lot of headaches later on, examine the shell closely, why are they out of business? Or if they have any hidden problems Such as angry employees, upset investors, product litigation. Or inconsistencies in prior financial reporting which can cause serious SEC problems down the road.

(5). Short Sellers: When I was a market maker I tried not make a market on the stocks of companies that used certain consultants because between the shareholders, the stock held by the shell owner and various other group the potential for a big sell off existed., short sellers know that when that stock comes out the share price will go down so they try to get there first.

For additional information visit:
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