TRADING INSIGHTS

SWI Continuing Education Volume 2

Financial Services
Reverse Merger Summary

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While the “turn around” of the market during the last twelve months may be good news for recovering share values, there is currently (and will not be for a while) no market for small IPO’s. This makes the “Reverse Merger” an exceptional instrument for taking companies with good potential public and thus creating a useful instrument for new capitalization for these companies.

A "reverse merger" is a method by which a private company goes public. In a reverse merger, a private company merges with a public company with preferably some assets and liabilities. The publicly traded corporation is called a "public shell" since all that exists is its corporate structure. By merging into such an entity, a private company becomes public immediately.

The Private company merges into a public company and obtains the majority of its stock (usually 80% or more). The private company normally will change the name of the public corporation (often to its own name) and will appoint and elect its directors and officers.

The advantages of public trading status, which are outlined in greater detail below, include the possibility of creating improved financial liquidity and commanding a higher price for a later offering of the company's securities. Going public through either a reverse merger allows a private company to go public at a lesser cost and with less ownership dilution compared to an initial public offering (IPO).

“Shareholders, within SEC rules and regulations, are in a position to sell any desired percentage of their shares, thus generating personal income, without giving away the company or control over the company”

“Going public through an SB-2 Registration or Reverse Merger allows a private company to go public typically at a significant lesser cost and stock dilution than through an initial public offering (IPO)”

In an IPO, the process of going public and raising capital is combined, is rather complicated and expensive and requires the underwriting commitment from an investment bank. In a reverse merger, these two functions are unbundled - a company can go public without raising additional capital at the time of the merger and without using an underwriter. Through this unbundling operation, the process of going public is considerably less expensive (apr. 20% of the cost of an IPO) and is greatly simplified .

The Private Company which has gone public obtains the benefits of public trading of its securities, namely:

- Increased liquidity of the ownership shares of the company.
- Higher share price and thus higher company valuation.
- Greater access to the capital markets through the possibility of continued future stock offerings.
- The ability of the company to make acquisitions of other companies using the company's stock.
- The ability to use stock incentive plans to attract and retain key employees and consultants.

Going public can be a part of a retirement strategy for business owners.

- Simply by merging into a public company, a private corporation can increase its value by three to five times.
- Considerable tax advantages are available through the reverse mergers, and proper exit strategies.
- The newly created value can become part of an estate providing value not only for the founders, but for generations to come.

The Benefits of going public through a reverse merger, as apposed to an IPO:

- The costs are significantly less than the costs required for an IPO.
- The time is considerably less than that for an IPO.
- Additional risk is involved in an IPO in that the IPO may be withdrawn due to an unstable market condition, even after most of the up-front-costs have been expended.
- IPO's generally require greater attention from top management and considerable dedication of time for road shows.
- An IPO requires a relatively long and stable earnings history.
- Reverse Merger has less dilution of ownership control.
- The company does not require an underwriter.
- You will receive a higher valuation for your company.

"There is currently no market for small IPOS, making a Reverse Merger an exceptional instrument to go public"

"In a Reverse Merger your company can go public without raising additonal capital immediately and without having to engage an investment bank as under writer, at a fraction of the cost of an IPO

"By going public a private corporation can increase its value three to five times and can become part of an estate, generating value for generations to come"

Once a company is taken public through a reverse merger, or a registered spin-off, the financial markets hold the following future prospects in the capital markets for the newly public corporation:

- The market value of a public company is often substantially higher than a private company with the same structure in the same industry.
- Capital is easier to raise for public companies because the stock has market value and can be traded.
- The public corporation may be used for special purposes, such as qualifying as a category two company for overseas offerings pursuant to Regulation S.
- The trading price of the public company's securities serves as a benchmark for the offer price of a subsequent public or private securities offering.
- Acquisitions can be made with the stock since publicly traded stock is viewed as currency for mergers and acquisitions.
- Form S-8 stock can be issued for consultants.

It is essential that public companies, especially newly public companies, actively maintain and manage a financial communications program.

- A newly formed public company would be well-advised to invest in consulting services, to plan and execute a strategy for building and maintaining an active interest in your company within the financial community.
- Consultants should be engaged to assist the public corporation in providing corporate relations services intended to increase awareness of your company on Wall Street.

Consultants should be engaged to execute Private Placements for the Company to acquire additional funds

For most people, recapitalization and stock value appreciation would seem reasons enough to be publicly owned, but there are other advantages that a company can gain. A public company has a broader equity base, thus increasing it's opportunities for obtaining financing for future projects. Increasing the bottom line net worth of a company, as well as its debt to equity ratio, enables it to borrow at lower interest rates from traditional institutions.

Here is a theoretical profile of a typical public shell corporation available for a reverse merger with your private business. This corporation is registered with the SEC and is a fully reporting company.

"Capital is easier to raise for public companies, because the stock has a market value and provide an potential exit strategy for investors"

"The stock creates a currency for the execution of acquisitions and to attract top management"

"Companies be well-advised to invest in consulting services, to plan and execute a strategy for building and maintaining an active interest in your company within the financial community"

This company is a reporting company under the Exchange Act of 1934. The company is current with all its filings.

1. The company was formed to be a vehicle for merger with a private company, or is a dormant company and is either completely free, as good as free of operating history, assets (other than its nominal capitalization) or liabilities, existing or contingent, or has been dormant for a number of years.
2. The company is incorporated in Delaware or Nevada, with capitalization of 2o - 25,000,000 authorized common shares and 5,000,000 preferred shares.
3. There are 5 to 8,000,000 common shares issued and outstanding. No preferred shares have been issued, and no rights, warrants, options or commitments exist for any other common or preferred shares.
4. The Consultant in cooperation with a securities attorney will transact the merger.
5. merger itself within 30-60 days, after purchase.
6. Audited Financials are current and have been filed on time with the SEC.
7. The cost for the transaction is anywhere from $70,000 to $500,000.00, depending on the cost of the shell itself, which includes legal, auditing and brokerage fees.

"Post public exposure, is typically the most neglected part of taking a company public, especially after an IPO by a large investment banking firm. SWI makes will create and maintain strong post-public exposure in the market."

About StockWatchIndex (SWI)

SWI is a financial information and consulting service. SWI's web sites, newsletters and publications are structured to inform, educate and empower its users, providing them with a competitive edge in today's fast moving investment market. SWI specializes in taking small companies public through an innovative, affordable and streamlined process and/or provides market awareness services for small public companies to improve their market position and support their stock trading activities. SWI helps position its clients on a new level of market awareness in order to successfully complete the different phases of financial advancement. SWI provides pre and post "Going Public" consulting and support in general business development and growth, social networking, market making, investor relations and syndicate relationships, as well as access to its expansive financial network to meet its clients' fund raising needs. SWI's corporate clients are considered equity partners and supporting the stock after taking the company public, is one of the core competencies of StockWatchIndex. Leading clients through the process of going public and/or establishing and maintaining a share value in the market thereafter, helping to raise capital for them is not merely a consulting-oriented activity. We work with our corporate clients not only to enhance shareholder value, but also to help companies set realistic goals and establish performance measures to monitor progress against the set goals to assure continued success.

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