

Client Education Reverse Mergers



Alchemy OTC Markets Specialists, LLC

What is a Reverse Merger?

- ▶ Means of taking a private company (PrivCo) into the public marketplace without going through the long and complicated process of a traditional Initial Public Offering (IPO) or a Direct Public Offering (DPO)
- ▶ In a reverse merger, PrivCo share holders acquire control of a Public Shell Company (PubCo) whereby the resultant equity controlling share position(s) resides with the PrivCo share holders now owning the majority shares of the Public listed Company (usually 90% or more)
- ▶ At the close of the merger, PrivCo assumes the corporate pedigree and structure of PubCo with its own company name, assets, officers, directors, management team and as a result, becomes the surviving listed public operating entity.
- ▶ Timing is typically 2 - 3 months upon completion of Financials



Reverse Merger vs. IPO - Time

- ▶ An IPO generally takes between 6 and 12 months
- ▶ Major Events include:
 - Financial Audit 2 years + 1 Q
 - Preparation of the Registration Statement
 - SEC review process - takes between three and nine months
- ▶ A Reverse Merger generally takes less than three months

No underwriting process or procedures	Less management time required
Built in share holder base	Financial Audits are not necessarily a prerequisite
No IPO window necessary	No Registration Statement required
Immediate ability to fund	Immediate trading symbol



Reverse Merger vs. IPO - Cost

- ▶ Legal costs are greater for the Initial Public Offering simply due to the number of hours for legal work necessary to draft the company's first S-1 Registration Statement and for mail outs
- ▶ IPO entails finding 35 + shareholders and creating subscription agreements
- ▶ Reverse Merger - is delivered with a shareholder base and the capacity to transact during the reverse merger process if desired
- ▶ No material transactions may be executed during IPO window period
- ▶ Reverse Mergers require no underwriting or sponsorship fees



What are the advantages of being Public?

- ▶ Increased access to capital - larger pool of potential investors for debt or equity
- ▶ Known market value for the company
 - Usually at a premium to private valuation
- ▶ Shares can be used for acquisitions and employee compensation
- ▶ Increased liquidity more attractive to top quality directors, officers and consultants
- ▶ Exit Strategy: Ability for shareholders to “Cash Out”
- ▶ Increased Shareholder confidence due to transparency



Going Public: Considerations

- ▶ The market emphasis on short term results
- ▶ Public disclosure of financial results
- ▶ Reporting and disclosure requirements pursuant to the Securities Exchange Act of 1934 and 1933 as amended.
 - Required to file disclosures, financials annually & quarterly and periodic reports
 - Increases the cost of doing business: legal, accounting, filings
- ▶ Increased liability due to risk of litigation
- ▶ Decrease in managerial flexibility
 - Shareholder approval of actions
 - Independent board members
 - Ability to focus on the business rather than the stock price



What is a Public Shell?

- ▶ An SEC registrant or OTC listed company with no or nominal operations and either no or nominal assets, assets consisting solely of cash and cash equivalents and generally no liabilities
- ▶ Current listed public shell companies (“PubCo”) as classified by FINRA Rule 405 within either of the 2 tiers of the OTC Markets or an SEC reporting issuer or delinquent filer, all of which, are valid candidates for Reverse Mergers.



Reverse Merger Process

Phase One:

- ▶ Company Internal Preparation
- ▶ Identification of the PubCo

Phase Two:

- ▶ Due Diligence and Negotiation of Acquisition Terms
- ▶ Opening of Escrow
- ▶ Creation of all requisite documentation

Phase Three:

- ▶ Closing the Reverse Merger
- ▶ Change of BoD
- ▶ Submission of all regulatory filings & documents to and including FINRA, SEC and OTC Markets



Reverse Merger Steps

All steps can be executed contemporaneously and the various steps depend upon the vehicle

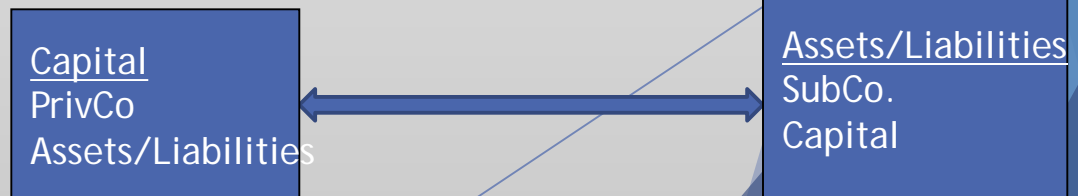
Step 1

- PubCo incorporates a wholly-owned subsidiary SubCo
- PubCo restructures the Issued & Outstanding (I & O) share structure
- SubCo acquires all the assets and liabilities of PrivCo
- PrivCo sells all the assets and liabilities to SubCo
- SubCo purchases the assets of PrivCo for a consideration of newly issued shares in the capital of SubCo to be issued to PrivCo.

Result

PrivCo owns all the I & O capital of SubCo

SubCo owns all the Assets and Liabilities of PrivCo



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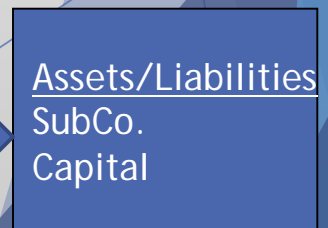
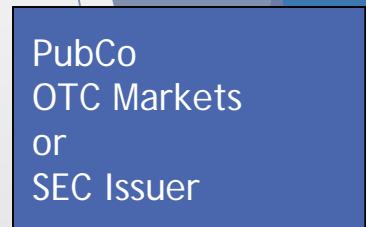
“PrivCo owns the majority of I & O shares in the capital of SubCo”

&

“SubCo owns all the Assets and Liabilities of PrivCo”

Step II

- PubCo acquires all the I & O shares of PrivCo or assets & liabilities
- PrivCo or SubCo sells all their I & O shares to PubCo
- PubCo issues a mutually agreed upon number of Rule 144 Restricted shares in the capital of PubCo to PrivCo or SubCo as consideration for the purchase of all the I & O shares of PrivCo or SubCo



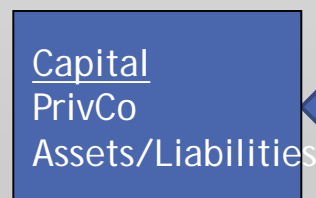
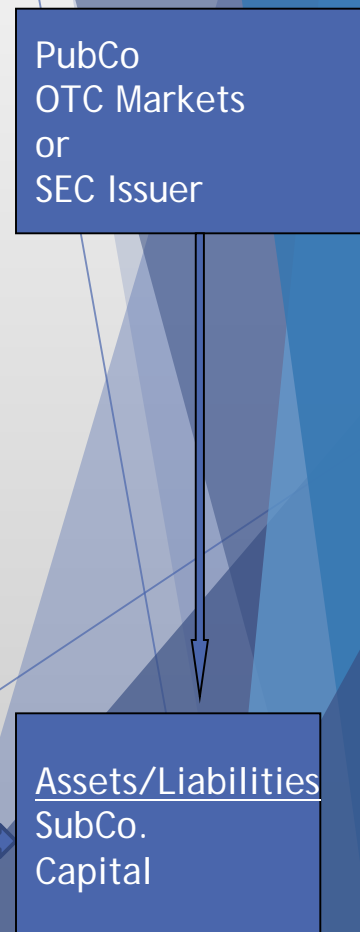
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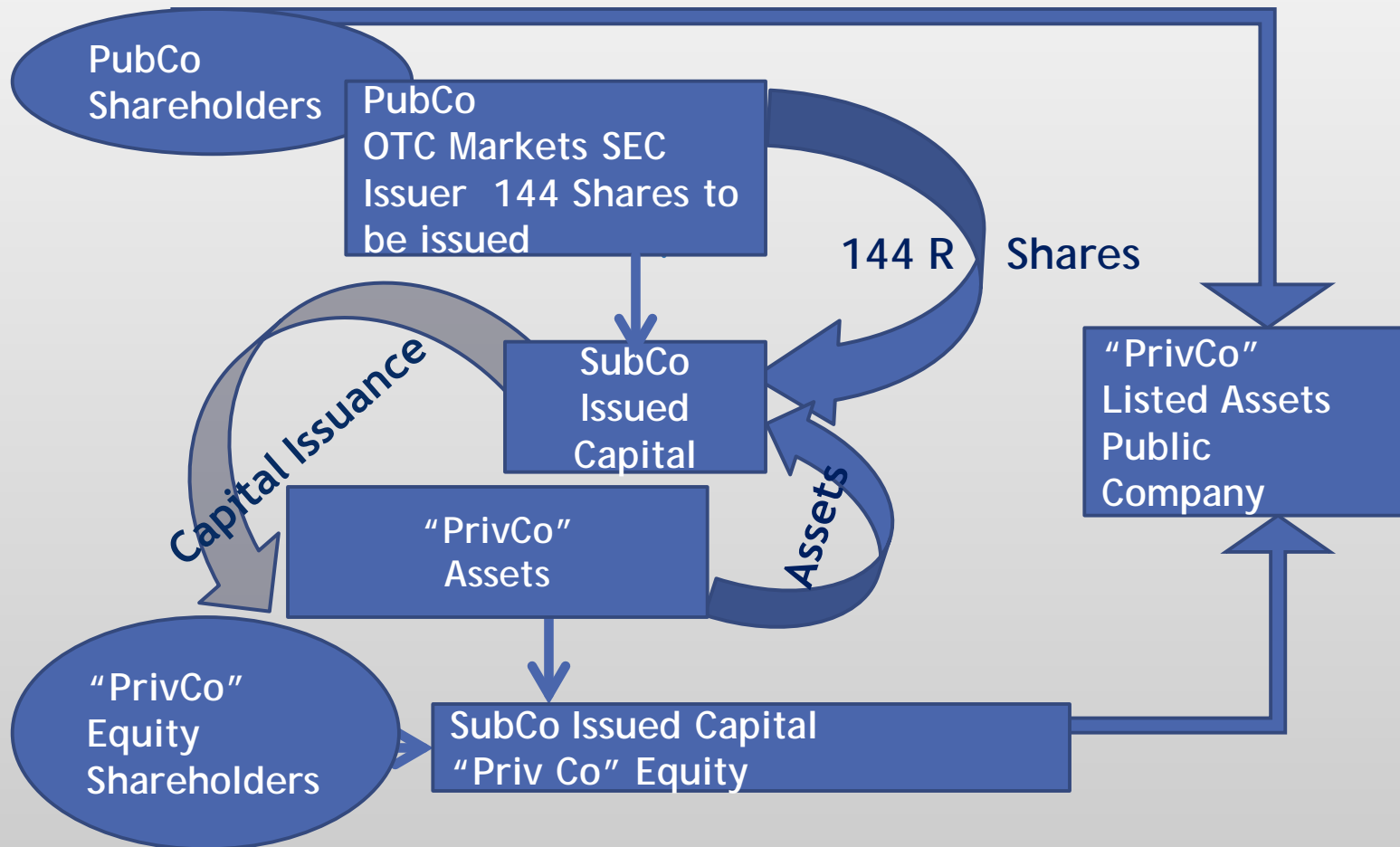
“PubCo causes to have issued and distributed a mutually agreed upon number of Rule 144 Restricted shares to PrivCo or SubCo”

Step III

- PrivCo or SubCo distribute the newly issued Rule 144 Restricted PubCo shares to to all the existing share holders, management and board on a pro-rata basis resulting in the share holders of PrivCo having control greater than 51% of all the I & O shares in the capital of PubCo effectuating a Reverse Merger and public listing of PrivCo’s private shares for trading on the US OTC Markets.



US OTC Public Listing Reverse Merger



Phase One: Preparation

- ▶ Conduct preliminary due diligence
- ▶ Locate, profile and confirm the availability of the public shell and controlling share holder(s) equity position(s)
- ▶ Escrow opened
- ▶ Conduct , Complete and prepare a Due Diligence package
- ▶ Engage U.S. Securities Counsel as required
- ▶ Independent Auditors when required
- ▶ Financial Audits if required

Phase One timing depends on the specific shell requirements and availability of both parties respective financial statements.

Phase Two will occur contemporaneously with the preparation of respective company financials.



Phase Two: Terms of Acquisition, Letter of Intent and Due Diligence

Letter of Intent

- Private company and public shell enter into a letter of intent
- Private company and investors negotiate a letter of intent for financing, if applicable
- The major terms of the reverse merger are negotiated at this point (i.e. percentage ownership, board membership, management of the company, ability to sell stock, representations and warranties, indemnifications etc.) as well as any simultaneous financing component

It will take about two weeks to negotiate the letter of intent and another two to four weeks to complete due diligence which will be conducted simultaneously.



Phase Two cont'd: Due Diligence

Gather due diligence on the Public Company and its shareholders:

- Clarity as to number of shareholders
- Confirm any potential/unforeseen, intrinsic liabilities or otherwise as related to past businesses or management
- Confirm compliance in regulatory filing and listing obligations
- Is ready willing and able and duly authorized and mandated to facilitate and consummate the reverse merger transaction
- Confirm DTC eligible
- Has a capitalization structure that allows for a sufficient amount of shares to be issued
- Shareholder base allows the target to take control

Review and Comment on all materials:

- This process can take two to four weeks
- Review of all public filings and other material documents; litigation/background checks



Phase Three: Closing the Reverse Merger

Transaction Documentation

- Drafting begins immediately after the letter of intent is signed and usually takes two to four weeks to complete
- Transaction documents may include:
 - Share exchange agreement
 - S1 Registration Statement
 - Information Disclosure Statement
 - Super 8-K
 - Board and Shareholder consents

Timetable for Phases One through Three take approximately 2 to 3 months.

Super 8-K Preparation

- Super 8-K involves comprehensive disclosures regarding the prospective acquisition and the change of control, including all information required in a Form 10 (i.e. information regarding the Company's business, material agreements, risk factors and directors and officers), MD&A, and two years of audited (if SEC filer) financial statements
- Must be filed within four days of closing of the reverse merger (if SEC filer)
- Begin drafting this document after the letter of intent is signed, but cannot be finalized without the audit and definitive documents
- **Stock Certificates**
- Issue and distribute stock certificates



Listing Requirements

Qualifications for OTC Pink Current Information (Foundation for the QB)

- ▶ Companies that make the information described below publicly available on a timely basis (90 days after fiscal year end for Annual Reports; 45 days after each fiscal quarter end for Quarterly Reports) qualify for OTC Pink Current Information.

Initial Qualification:

- ▶ Subscribe to the OTC Disclosure & News Service on www.OTCIQ.com to publish your financial reports and material news.
- ▶ Create the following documents, save them in PDF format and upload them via www.OTCIQ.com:
 - ▶ Annual Financial statements (Document must include: Balance Sheet, Income Statement, Statement of Cash Flows, Notes to Financial Statements) for the previous two fiscal years. If these reports are audited, please attach the audit letter from the PCAOB registered audit firm. Each year's Annual Financial statements should be posted separately under the report type "Annual Report" on www.OTCIQ.com
 - ▶ Any subsequent Quarterly Reports since the most recent Annual Report
 - ▶ The most recent fiscal period end report should also include information in accordance with the [OTC Pink Basic Disclosure Guidelines](#)
 - ▶ Financial reports must be prepared according to U.S. GAAP, but are not required to be audited to qualify for OTC Pink Current Information
- ▶ If financial reports are not audited by a PCAOB registered audit firm:
 - ▶ Submit a signed Attorney Letter Agreement (first two pages of the [Attorney Letter Guidelines](#))
 - ▶ After following the appropriate procedures with a qualified attorney, upload an Attorney Letter complying with the [Attorney Letter Guidelines](#) through your www.OTCIQ.com account



Listing Requirements, Cont.

Ongoing Qualifications:

- ▶ **For each Fiscal Quarter End**, upload a Quarterly Report via www.OTCIQ.com within 45 days of the quarter end. (A separate quarterly report is not required for the 4th quarter.) The Quarterly Report should include:
 - Information in accordance with the [OTC Pink Basic Disclosure Guidelines](#)
 - Quarterly financial statements (Balance Sheet, Income Statement, Statement of Cash Flows, Notes to Financial Statements). Financial reports must be prepared according to U.S. GAAP, but are not required to be audited
 - No Audit Letter or Attorney Letter is required
- ▶ **For each Fiscal Year End**, upload an Annual Report within 90 days of the fiscal year end. The Annual Report should include:
 - Information in accordance with the [OTC Pink Basic Disclosure Guidelines](#)
 - Annual financial statements (Balance Sheet, Income Statement, Statement of Cash Flows, Notes to Financial Statements, and Audit Letter, if financial statements are audited). Financial reports must be prepared according to U.S. GAAP, but are not required to be audited
- ▶ If financial reports are not audited by a PCAOB registered audit firm, upload an Attorney Letter via www.OTCIQ.com complying with the [Attorney Letter Guidelines](#) within 120 days of the fiscal year end.



Listing Requirements OTCQB

- ▶ OTC Pink Current Status



- ▶ Meet a minimum bid price test of \$0.01. Securities that do not meet the minimum bid price test will be downgraded to OTC Pink.

- ▶ **Bid Test**

- All current OTCQB companies that do not meet the minimum bid test (minimum bid price of \$0.01 per share as of the close of business for at least one of the previous thirty consecutive calendar days) will be removed from OTCQB beginning May

- ▶ Submit an application to OTCQB and pay an application \$2.5K and an annual fee \$10K
- ▶ Submit an OTCQB Annual Certification confirming the Company Profile displayed on www.otcmarkets.com is current and complete and providing additional information on officers, directors, and controlling shareholders



Contact Information

- ▶ Alchemy OTC Markets Specialists, LLC is a US Nevada based Boutique International Consulting Firm advising private companies as to US OTCMarkets listing requirements, SEC (US Securities and Exchange Commission) &, FINRA (Financial Industry Regulatory Authority) regulatory requirements to become a publicly listed company or an SEC reporting issuer quoted and traded on the US OTCMarkets.
- ▶ Alchemy OTC Markets Specialists is a public listing securities consulting firm supported by a platform of 26 years of Canadian and US Public security transactions and offering private companies the Firm's Reverse Merger Turn Key Solution (RMTKS) program to obtain a public listing.

This presentation is for informational purposes and does not contain or convey legal advice.

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