



| What Is a Public Shell?

A public shell company is a public company in a developmental stage that either doesn't have an established business plan or has a business plan that revolves around a merger or acquisition with another firm. A reverse takeover, also known as a back door listing, or a reverse merger, is a financial transaction that results in a privately-held company becoming a publicly-held company without going the traditional route of filing a prospectus and undertaking an initial public offering (IPO). Rather, it is accomplished by the shareholders of the private company selling all of their shares in the private company to the public company in exchange for shares of the public company.

While the transaction is technically a takeover of the private company by the public company, it is called a reverse takeover because the public company involved is typically a "shell" (also known as a "blank check company", "capital pool company" or "cash shell company") and it typically issues such a large number of shares to acquire the private company that the former shareholders of the private company end up controlling the public company.

Different Types of Public Shells

There are numerous types of public shells available. Some public shells have cash on hand and are looking to merge with an operating company. Naturally, a public shell with cash on hand or other assets will bring a higher price than those without. Some public shells have liabilities, and you will likely find those shells available at a lower price, but with that lower price comes the liabilities that will need to be cleaned up.

Non-Trading Non-Reporting Public Shell

A non-trading non-reporting public shell is just what it sounds like. It is a public company with no operations, no assets, no trading symbol and usually only has a shareholder base.

An application for a symbol is usually made to the NASDAQ Bulletin Board. The application for a symbol requires filing a Form C211 by a market maker that is a member of the NASD. The Bulletin Board has no financial requirements. A listing will be granted if the affairs of the company are in order and the company answers the questions posed by NASDAQ.

Rule 15c211 was designed to allow non-reporting public company's securities to be quoted on the National Association of Securities Dealers' ("NASD") Over-the-Counter Bulletin Board ("OTCBB") by filing some simple disclosures.

Now, companies seeking to obtain a quote on the NASD OTC/BB are required to file reports with the Securities and Exchange Commission ("SEC"), under Section 15D of the Securities Exchange Act of 1933 (the "Act"), as amended, or section 12G of the 1934 SEC Act. A company, who has filed a registration statement with the SEC using an SB-1, SB-2, or Form 10, will become a reporting company when the SEC declares the registration statement effective. Once the company is reporting, it is eligible to have a market maker file a Form 211 with the NASD. The 211 must be approved by the NASD, which normally takes 3 to 6 months, before the company can trade its stock on the OTC/BB. The NASD will require 40 to 50 shareholders and sufficient public float to approve the 211 application.

It is possible that at one time the shell may have been a reporting company, but regardless, you must file with full disclosure and full business information including financial audits to become reporting. You will need a Market Maker to file a new 15c211 with the National Association of Securities Dealers (NASD) in order to get a trading symbol.

Typical value of such a public shell is in the neighborhood of \$10,000 to \$25,000.

Reporting Non-Trading Public Shell

A 12G company, a reporting non-trading public shell that typically just filed a blank 10k with no business operations, usually has only one shareholder and no trading symbol.

Typical value of such a public shell is in the neighborhood of \$10,000 to \$15,000.

A gray sheet company, a non-trading public shell has an inactive symbol and may or may not be reporting. There are no active market makers. The new market maker must file a new 15c211 with the NASD in order to reactivate the inactive symbol, or to change to a new symbol. A shareholder base of 50 or more is necessary to get a symbol, and as a reporting company it will have to have a financial audit.

Typical value of such a public shell is between \$50,000 and \$75,000.

Trading Non-Reporting Public Shell

A non-reporting public shell that trades normally does so on the Pink Sheets, which is a privately owned quote service not associated with the NASD and is not subject to SEC reporting requirements. If the shell is past reporting, a delinquent filer, or no longer current with its filings, it may avoid SEC review if its filings are brought current. This type of shell may qualify for a "piggy back" exemption if the company becomes current and compliant with the SEC in its reporting requirements. If the shell was never reporting, it must file a registration statement with the Securities and Exchange Commission (SEC) and will normally require an SEC review.

Usually upon completion of the reverse merger, the name of the shell company is changed to the name of the private company. If the shell company has a trading symbol it is often changed to reflect the name change. An information statement, called an 8-K, must be filed within 15 days of the closing. The 8-K describes the newly combined company, stock issued, information of new officers and directors, and financial statements audited to US GAAP, standards. The 8-K must disclose the same type of information that it would be required to provide in registering a class of securities under the Securities Exchange Act of 1934.

If the shell company is listed on the Bulletin board, the registered or free trade shares can continue to trade. The company can do a private placement immediately. To trade new shares offered by the public the newly combined public company must first register the shares with the SEC. This process takes three to four months and normally requires filing a Registration statement with the SEC under Reg. SB-2 or SB-1.

Typical value of a trading non reporting public shell is in the neighborhood of \$125,000 to \$200,000.

Trading and Reporting Public Shell

This type of public shell reports to the SEC, must file annual 10Ks with an audit, as well as 10Qs and 8Ks.

Can be a 15D reporting under the '33 Act, or a 12G reporting under the '34 Act.

Value is \$400,000 to \$800,000 and equity dilution of 1% to 5%, post merger.