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Considering Going Public - How About a Reverse Merger?

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If your company has grown to the point where you are considering going public, a reverse merger might be the fastest and most cost-effective way for you to become a publicly traded company.

Why Go Public?

Going public today is more extensive and more complicated in part due to Sarbanes Oxley. However, the advantages of being a publicly traded company still exist for many companies that are prepared to deal with the increased regulations, including:

- A higher market value than a private company.
- Increased liquidity.
- Easier access to capital markets.
- An established benchmark for the offer price of subsequent public or private offerings.
- The option to make corporate acquisitions with stock instead of cash.
- A reliable way for business owners to cash out.
- Flexible stock incentive plans to help attract and retain staff.
- Prestige - a publicly traded company is usually well respected because it is overseen by the SEC.

Going Public through a Reverse Merger

A reverse merger, also known as a back door listing or reverse takeover, allows a privately-held company to go public. Companies that go public through an initial public offering ("IPO") typically file Form S-1. However, a reverse merger requires only the filing of Form 8-K, which is much less extensive than Form S-1. In a reverse merger, shareholders of the private company exchange their shares for shares in a public company. Although it is technically a takeover of the private company by the public company, the public company is typically a shell company. Usually, all that exists in the original public company is its organizational structure and minimal assets and liabilities. Post merger, the already public company becomes an entirely new operating entity and changes its name and business operations to that of the privately-held company.

Advantages of Going Public by Reverse Merger

Going public by using the reverse merger is a trend that is gaining momentum due to several factors. The two biggest advantages of a reverse merger versus the traditional are IPO time and cost. Often a reverse merger can be completed in as few as 30 to 60 days. The process for a conventional IPO can last from six to nine months, or more. Since the shell company is already registered with the Securities and Exchange Commission ("SEC") and is usually current with its SEC filings, the privately-held company that merges into the shell company avoids going through the expensive and time consuming review of state and federal regulators. Another major advantage is that the reverse merger is driven by the owners and management

of the company and is far less dependent on market conditions or on short "windows" that often close. We've seen several situations where market conditions have either postponed or totally shelved an IPO.

Accounting

A reverse merger is accounted for as a reverse acquisition and recapitalization. The privately-held company is the "Acquirer" for accounting purposes. The public company is the "Issuer". The historical financial statements of the Issuer become those of the Acquirer.

Tax

These transactions are usually tax-free under corporate reorganization provisions.

GoFish goes Public through Reverse Merger

GoFish Technologies, Inc., an online video destination for user-generated videos, recently completed a successful reverse merger and is now trading under the symbol GOFB.OB. GoFish was acquired by Unibio, Inc. via a reverse merger. Unibio, Inc. changed its name to GoFish Corporation and assumed GoFish Technologies, Inc.'s user-generated video business plan as its sole business. See www.gofish.com.

Rowbotham & Company LLP assisted Gofish during their merger with accounting and SEC advisory services. We are also the company's auditors. For more information regarding our services on merger and acquisition and due diligence consultation, please contact [Mark Kelly](#) or [Harriet Leung](#).

Firm News

Brian Rowbotham recently gave a presentation on reverse mergers to the VC Angel Roundtable in Palo Alto. Contact [Brian Rowbotham](#) for more information.

The firm recently gave a presentation to the Bechtel International Center at Stanford University concerning international tax compliance and planning for foreign students. Contact [Cindy Hsieh](#) for more information.

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