



Internet Securities
September 30, 2009

Reverse Mergers
Alternative Public Offering (APO)

Introduction

Laird Cagan

- Formerly Goldman Sachs; Drexel Burnham Lambert
- Investor: More than 25 companies,
- Operator: Founded 3 companies, served on 10 active boards
- Structuring: 30 M&A/LBO transactions valued at over \$15B
- Stanford B.S., M.S. & M.B.A.

Eric McAfee

- Invested in more than 25 early and mid-stage venture stage
- Served on 15 portfolio company boards (3 public)
- CA Manufacturing Assoc, Board of Directors
- George W. Bush Natl Info Tech. Advisory Board
- Stanford University, Exec. Program; Fresno State B.S.

John Pimentel

- Former Bain & Company, CA Deputy Sec. Transportation
- Managed \$5B budget and 28,000 employees in total
- Harvard M.B.A.; Univ. of Calif., Berkeley, B.A.

Mike McTeigue

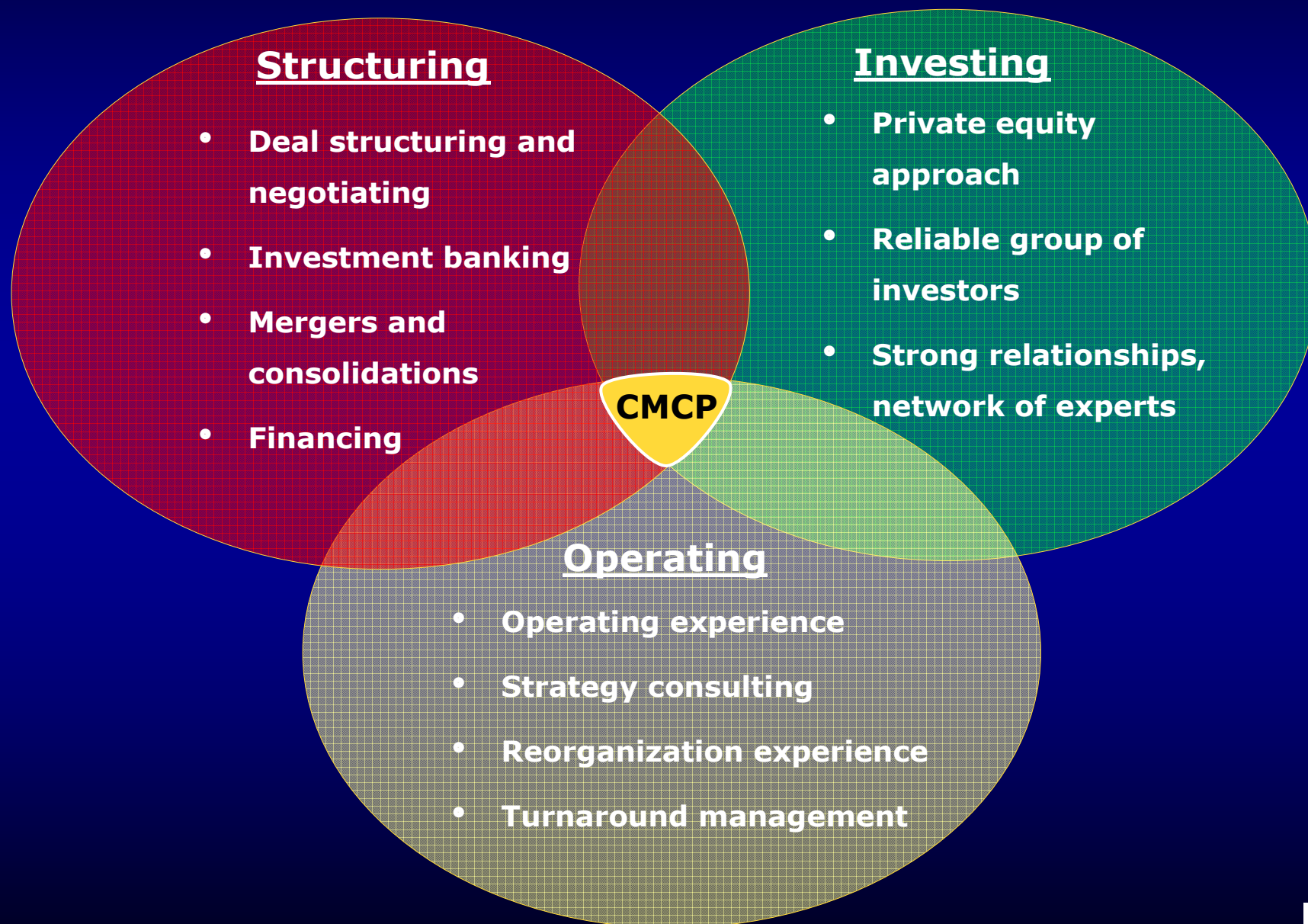
- Started 2 companies
- UCLA B.S., Stanford MBA

Steve Lee

- Wilson, Sonsini
- VP Bus/Dev and M&A, Startup
- Stanford Law School



CMCP: unique merchant bank/advisory firm



Reverse Merger - Outline

- **What is a Reverse Merger?**
- **Benefits of Reverse Merger**
- **Successful Reverse Merger Needs**
 - **Fundamentally Strong Company**
 - **Capital**
 - **Clean Shell**
 - **IR/PR - liquidity**
 - **Advisors:**
 - **Securities Lawyer(s)**
 - **Accounting Firm**
 - **I-Bank/Merchant Bank/Capital Partner**
 - **Management**
 - **Industry Veterans and Public Company CFO**
- **Reverse Merger Process**
- **Case Study - Solargen**

What is a Reverse Merger?

What is a Reverse Merger?

Merger of a Private Company (vast majority)

into

A Public Shell Company (small share %)

Industry Drivers

- **Access to Capital**
 - **10,000 Hedge Funds**
 - **\$2 Trillion Under Management**
 - **Primarily Invest in Public Companies**
 - **Able to invest in anything**
 - **Like Structured Deals**
 - **Since 2000**
 - **IPO – Limited Number, High Bar**
 - **Private Capital dried up in 2001**
 - **Venture Capital \$20B/yr – very focused, Control Oriented**
 - **Quality of Reverse Mergers Increased**

Industry Drivers

- **Increase in PIPE Market
(Private Investment in Public Equity)**
 - **1995**
 - **100 PIPES - \$1B**
 - **2005**
 - **1,500 PIPES - \$25B**
 - **90% of Issuers are under \$250M Mkt Cap**
 - **60% are under \$50M**

Reverse Merger Benefits

- **Speed/Timing**
 - **Raise Capital First – Then Register (Capital Process)**
 - **1-3 Months to Raise Capital**
 - **Merge into Shell (Legal Process)**
- **Cost**
 - **Minimal Upfront Cost**
- **Liquidity**
 - **Founders (Rule 144) (Should not be primary driver)**
 - **Currency for Acquisitions**
 - **Options for Management**
- **Control Vs. Private Equity**
- **Versus IPO (Legal and Capital Process)**
 - **6-12 Months or More**
 - **\$500k - \$1M Upfront, No Guarantee**
 - **Subject to Market Conditions**
 - **Requires Underwriter to Market**
 - **Not Available for Micro-cap Below \$50M Mkt Cap**



Shell

- **TYPE (Cost)**
 - **Pink Sheet (\$150k)**
 - **OTC (\$300k)**
 - **Listed: AMEX - Nasdaq (\$1M)**
 - **SPACs**
 - **Direct Listing (\$50 – \$100k)**
- **Quality**
 - **No Assets, No Liabilities**
- **Due Diligence**
 - **Regulatory Issues**

Costs

- **Cost**
 - **Capital - \$10-25 Upfront plus 8-10% Fee**
 - **Shell - \$0 - \$800k, plus stock**
 - **Lawyers - \$50k - 100k**
 - **Accountants - \$50 -100k**
 - **IR - \$100k - \$500k**

Reverse Merger Process

- **Fundamentally Strong Company**
- **Begin to Raise Capital**
- **Identify Shell**
 - **Due Diligence**
 - **Merger Agreement**
- **Audit of Operating Company**
- **Prepare “Super 8k” (release 4 days after merger)**
- **Close Merger**
- **Often Simultaneous Close with PIPE**
- **Begin IR (Investor Relations)**
- **Paid Research**
- **Underwritten Secondary Offering**
 - **Research from I-Bank**
 - **Is “IPO” Company Never Had**
 - **Generates Broad Institutional Support**
- **Listing Upgrade to AMEX or Nasdaq**



Investor Relations

- **Critical “Necessary” Component**
- **Creates Awareness**
 - **10,000 Small Public Companies**
- **IPO starts with 5x oversold Institutional support**
- **Shell has no retail or institution support**
- **Shell IR starts with Retail Support (Main Street)**
- **Migrate to Institution Support (Wall Street)**
- **Need Trading Volume to Give Currency Value**
- **Match Supply / Demand of Stock**
 - **Plan Float**
 - **Initial Float 100k – 1M shares**
 - **Registered Shares – 2 – 10M Additional Shares**
 - **Rule 144 – 12 months after merger and fully reporting**
 - **6 months for follow-on offerings**



Financing Risks

- **Conditioning the Market**
 - Short Selling by Investors
- **Floating Conversion Price**
 - Investors and others incentivized to drive price down
- **Manipulation by Shell Owners**
 - Pump and Dump



Management

- **Industry Veterans**
 - **Building a Company – Not Cashing Out**
- **Public Company CFO**
- **In-house Securities Lawyer**



Returns on Initial Rounds – CMCP Deals

Company	Listing	Investment Date	Purchase \$/sh	Exit sh/\$ @ Start*	Return	Exit sh/\$ @ Peak	Return	Avg. Trading Volume/day
Pacific Ethanol	NASDAQ: PEIX	Feb 04	\$1.50	\$19.93	1300%	\$44.50	3000%	1,751.8
Minrad	AMEX: BUF	Nov 03	\$1.25	\$4.25	340%	\$7.00	560%	86.4
Particle Drilling	NasdaqCM: PDRT	Jan 05	\$2.00	\$6.50	320%	\$7.33	360%	120.5
Procera Networks	AMEX: PKT	May 02	\$0.50	\$1.10	220%	\$7.70	1540%	106.0
Evolution Petroleum	AMEX: EPM	Jan 04	\$1.00	\$2.00	200%	\$4.38	440%	38.2
World Waste	OTC BB: WDWT	Aug 04	\$1.50	\$2.70	180%	\$6.80	450%	29.3
AE Biofuels	OTC BB: AEBF	April 06	\$1.50	\$0.45	30%	\$0.45	30%	33.5

**Share price on approximate date shares became tradable under SEC Rule 144 exemption from registration.*



PEIX Trading Since Merger*



Pacific Ethanol Inc.'s mission is to become the Western United State's leading marketer and producer of renewable fuels.

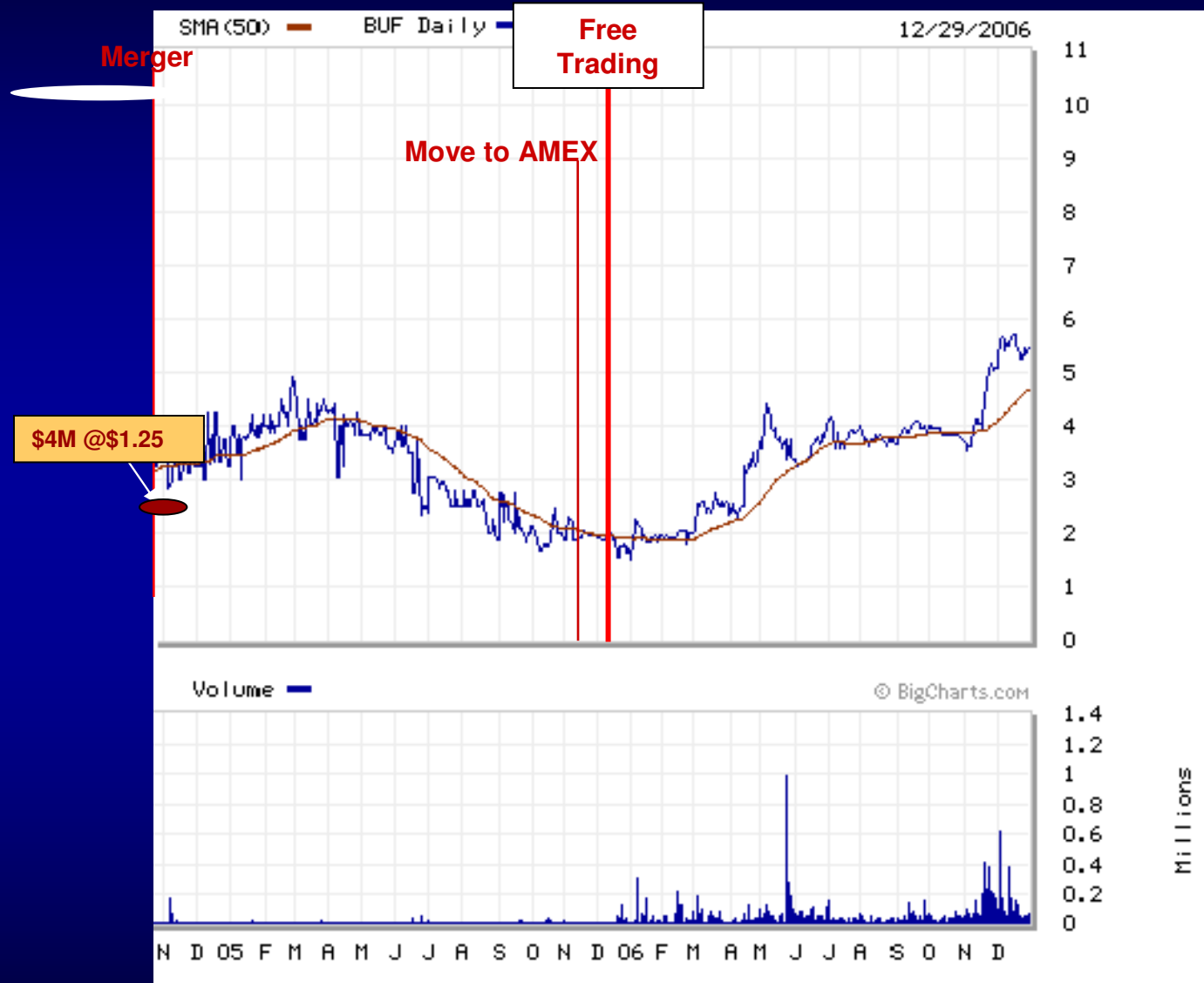


*Prior to merger on 3/23/05, stock traded as ACTY and Pacific Ethanol was privately held.

Minrad Trading Since Merger



Minrad International, Inc. is an innovator in acute care medical devices and pharmaceuticals. Minrad manufactures and markets patented real-time image-guidance technologies and generic inhalation anesthetics for use in connection with human and veterinary surgical procedures.



EPM Trading Since Merger



Evolution Petroleum Corporation engages in the acquisition, exploitation, development, and production of crude oil and natural gas resources in the US.



PFAP Trading Since Merger



Pacific Asia Petroleum is a US corporation that is aggressively developing a portfolio of energy assets in Asia which provide a mixture of short-term and medium-term projects with the goal to maximize shareholder value.



Restricted stock sold at \$1.25 became freely tradable in mid 2008.

Considering an APO? Look for:

Operating Co. Candidate

- Inflection point
 - New contracts
 - Proven technology
- Near positive cash flow
- Modest funding needs \$5M-\$10M
- Simple to explain business model
- Rapid earnings growth projected

Management Team

- Able to execute on opportunity
 - Accretive acquisitions
 - Fast ramp up
- Strong financial management
- Strong sales staff or channel

Market Opportunity

- Large industry with growth characteristics
- Low-technology risk



Only pursue companies with solid fundamental opportunity