

## *In our first Issue of the new century...*

We introduce a new D&O underwriter, and talk about Reverse Mergers.

## D&O Underwriting Team Expands to Meet Growing Demand



As our business continues to grow, one of our goals is to continue to provide our brokers with the level of service to which they have become accustomed. To help us accomplish this, we are pleased to announce that Clancy Foley is moving from our claims operation to join Diane Vasti, Jim Crockett and Frank Kastelic as a D&O liability underwriter. Clancy joined Chicago Underwriting Group, Inc. in 1990,

and learned the professional and executive liability businesses through the experience that comes from handling and monitoring complex claims situations.

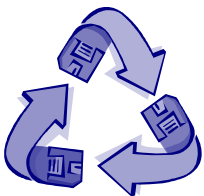
The knowledge that Clancy acquired in this field will help him as he migrates to a risk analysis and underwriting role. During the transfer process, Clancy will continue to work on some of his existing claim files, but you will see his name appearing on more un-

derwriting correspondence as the transition progresses.

Clancy received his undergraduate degree from the University of Illinois in Urbana-Champaign, and is currently attending the Kellestadt Graduate Business School at De Paul University. You can reach him at 312.750.8960 or by e-mail at:

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## "Reverse Mergers"



With the soaring stock valuations in the current economy, there is a rush - almost a stampede - for entrepreneurs to take their companies public and profit from investor's attraction to Internet-related businesses.

However, the IPO (Initial Public Offering) process is complicated, expensive and protracted and so business owners are turning to a process known as "reverse merger" to achieve

the goal of public ownership without some of the drawbacks of an IPO.

### What is a Reverse Merger?

A reverse merger is when an active, private company buys an inactive public "shell" company and then assumes the "public" status of the acquired company. While the benefits that attach to being a public company are gained, there is no obligation to provide the extensive disclosure

of information that comes with an IPO.

Unlike an IPO, it is not initially utilized to raise capital - although subsequent offerings can accomplish this - but it is a much faster and invariably less expensive way to acquire the status of "publicly traded." Certainly, a reverse merger has its own issues: some shareholders of the purchased "shell" company may be unhappy, and hidden obligations and liabilities attaching to the "shell" may emerge later to hurt the buyer. However, it is a tactic that is being used more frequently.

## What are the Implications for D&O Underwriters?

While most businesses utilizing a reverse merger will have sound reasons for doing so, the very nature of the process is inherently secretive. The formal IPO process with its statutory requirements, scrutiny and exhaustive prospectus at least provides the potential investor and the D&O underwriter with extensive disclosure of pertinent information: Who are the lawyers? Who are the investment bankers? Who are the venture capitalists? Who are the other backers? Who are the directors? What exactly does the

company do? What are the various risk factors? Who are the customers? Who is the competition?

A reverse merger, in contrast, materializes a private entity into a public company with few footprints. Will we consider "reverse merger" companies? Yes, but brokers should recognize that being unable to depend upon our usual sources of information, we will require information similar to what would be found in an S-1 prospectus, and a full company analysis and background check will be done. For

more information about reverse mergers, visit:

[www.adargroup.com](http://www.adargroup.com) ❖

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