

**Department of Banking and Financial Management  
University of Piraeus**



**Research Seminar Series**

**Thursday, December 18 2008  
Time: 16:00 – 18:00, Room 013**

**Seminar Title**

**“A Comparison of Penny Stock Initial Public Offerings and Reverse Mergers as Alternate Mechanisms to Going Public”**

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**Summary**

This paper compares a group of firms that go public using penny stock initial public offerings (PSIPOs) to those using reverse mergers (RMs) and analyzes firm characteristics driving US firms to opt for RMs instead of PSIPOs. Since no offerings are conducted upon initiation of trading, we hypothesize that contrary to the going public literature, RMs can be highly information asymmetric firms. We analyze RMs' characteristics prior to going public and find that they are small, still in the development stage, illiquid, they exhibit losses, high short-term obligations and low expenses as they are early in their lifecycle. They have planned stock-financed acquisitions with the intention to acquire a greater market share. Their insiders maintain a high ownership stake after going public with no intention to cash out within the first two years after going public. We find that RMs exhibit shorter duration of negotiations, are frequently PIPE-financed and manage to be upgraded to one of the main US stock exchanges. We also find that the decision to go public using an RM is made to exploit private information advantages held by insiders that manifest themselves in future cash flows.

**Ioannis V. Floros** is an Assistant Professor of Finance at Iowa State University and conducts research primarily in the areas of corporate finance, going public decisions and securities offerings. He taught undergraduate Capital Markets, Investment Management and Derivatives courses at the University of Pittsburgh and at Iowa State University. Prior to pursuing with doctoral studies, Ioannis worked for Accenture S.A. as a senior financial. He holds a B.Sc. degree in Economics from the University of Piraeus, an M.Sc. degree in Economics and Finance from Warwick Business School and a Ph.D. degree in Business Administration from University of Pittsburgh.