

Going Public...

These notes are produced to assist in understanding the process of becoming a publicly traded company in the United States. They should be read very carefully in conjunction with the US-Float file showing the USF 7 Steps to Listing in the US. All public listing processes can change from company to company, depending on size of company, the point at which the investors take up the equity in the company, the speed of US audit and of course the US regulatory authorities.

USF provides legal, financial and investor relations partners to companies all over the world that wish to raise funds through being a public company in the US.

The securities markets in the US are highly regulated, with high levels of investor protection, but with the opportunity for sound, fast-growth companies to open the door to substantial funding.

PRIVATE or PUBLIC?

There are a high number of privately owned companies that have the desire to grow, both organically and via making strategic acquisitions. In order to grow, these companies need access to working and investment capital. In most cases, investors are reluctant to invest in private companies because of the uncertainty over a viable exit strategy for their investment and being unable to realise their investment for a long period of time.

Why should a company consider going public?

Before a company decides to attempt to become a public company in the US, it needs to ask itself why it wants to be a public company and if it is capable of achieving, and maintaining its status as a public company.

THERE ARE MANY ADVANTAGES.

Raising Capital and finding investors.

Public status is a great benefit to finding investors. In today's marketplace, investors are extremely reluctant to assume the long term risk of investing in a private entity. They want quick liquidity, with the ability to sell their investment when they want, and a ready market to resell their investments. This can only be accomplished if there is an active public market for the stock they buy. Also the success of subsequent offerings to raise more money is often enhanced when a stock has market makers and is actively trading. A prerequisite at this stage is a well-conceived business plan, supporting a strong management team, sound marketing plans and a product or service that has broad appeal.

Liquidity for Shareholders

Founders, management and investors want an exit strategy for their investments. Only two routes exist: the trade or strategic sales of the company, or a listing of the company's stock on a public stock market. The public market listing answers the need most effectively and makes your company more attractive to investors.

Second Currency for Acquisitions.

If your company is interested in growing by acquiring other companies, then these acquisitions can be made by using your publicly traded stock as a currency to pay for the acquisition and preserve more cash for working capital requirements. In addition, in today's economic climate, it is extremely difficult to find financing to fund acquisitions, so a liquid stock offers an attractive alternative to pay the seller of the company.

Attract and Motivate Key People

Publicly traded stock options can be used as a powerful form of incentive as compensation for key employees, directors and consultants. Just think how many secretaries at Microsoft became millionaires !

Credit Standing and Credibility

Generally, public companies are considered better credit risks. The visibility and transparency they attain is vital in the marketplace and for obtaining credit. Also it can eliminate the requirement for personal guarantees of corporate debt by owner/managers.

Tax Planning

Holders of stock in a publicly traded company have the opportunity to determine when to sell their stock and in what denominations. They can structure orderly liquidations of their stock when they are ready to recognize capital gains losses. Compare this to the owner of a private company whose only exit is the sale of the company, with the resultant difficulties in potential tax penalties.

Estate Planning and Charitable giving

The opportunity to give public company stock to an heir is a powerful tool, especially if that stock will appreciate in value over time.

Greater Valuation

Generally, public companies are given much higher valuations than comparable privately held companies. This is partly a reflection of the liquidity of a company's stock and its comparison to other companies in its sector and overall market conditions. If investors are confident that they can buy and sell stock when they want, then they are willing to pay more for that stock. This is simple investor sentiment and economics.

THERE ARE DISADVANTAGES TOO !

Loss of Confidentiality; Public Reporting

If the company trades on any of the higher public exchanges it will be obligated to file regular reports on its business and financial condition with the Securities and Exchange Commission (SEC), which is the government body that regulates US public companies. The time, expense and disclosure of corporate information required of SEC reporting companies can be discouraging to those who are used to keeping their corporate affairs private and will require accountability not required of public companies.

Part of the price you pay for being public.

Maintenance Costs

Because of periodic reporting requirements of the SEC, most public companies will have to incur more costs, including annual audits of their financial condition, legal costs for SEC filings and costs to market their publicly traded stock.

Dilution of Equity

By the nature of public status, an amount of the owner' s equity must be given up in order for there to be a public " float" or group of shares that are trading in the open market. However, this is a small price to pay in view of the greater market value generally achieved and the other benefits. Remember, it' s always better to own " a smaller piece of a larger pie." USF can show you specific examples of how the much higher valuation of your ownership merely by being public actually gives you a HIGHER value for your stock, even after you give up stock to outside investors.

Officer and Director Liability

The exposure and visibility of being public brings with it greater scrutiny from your public and outside stockholders. You also have a much larger number of stockholders, often several thousand, once you have an active market in your shares. While liabilities can in most cases be protected by insurance, management' s actions must be more circumspect at all times.

In summary, becoming and maintaining a public presence requires a significant commitment of resources and capital.....but it has its rewards. Any company must recognise the advantages and disadvantages and must ensure it has the capacity to be public at all times..

HOW TO BECOME PUBLICLY TRADED IN THE US.

There are several methods of becoming publicly traded, including the traditional underwritten Initial Public Offering (IPO); purchasing a public shell company (this is a company that is trading on a public market, but no longer has a business or assets in it); or a self registration process of some of the company' s shares for public sale and then listing them directly on a stock exchange (Direct listing).

In today's public market the purchase of a public shell company has been the primary method of going public and current market conditions mean that it can be the most cost effective and speedy method of becoming a publicly quoted company in the US.

THE USF PROCESS

Based on our years of successfully helping companies to go public and raise investment capital, we have a clear route to ensuring our clients arrive as public companies with the minimum stress. Therefore, we and our legal advisers will undertake the following:

- Firstly we form a new corporation in the US, this will become the holding company for the operating entity or entities (the " Company ").
- We undertake a valuation of the Company and determine a capital structure for Holdco along with estimated initial range of market prices for Holdco' s stock once it starts trading publicly.
- We arrange an exchange of 100% of the shares in the Company for 100% of the shares in Holdco. At this point, the owners of the Company are now the owners of Holdco and the Company is a wholly owned subsidiary of Holdco. Nothing changes with the Company: all its operations, relationships, contracts, bank accounts, etc remain the same. All operations in the Company will continue as normal.
- We register a block of Holdco' s shares of common stock with the SEC, so that these shares can be legally traded on a public exchange. If your principle place of business is outside the US then a separate filing will be necessary, with audited financial statements.
- We engage a market-making firm to list Holdco shares, typically this will be on the Nasdaq OTCBB market. A trading symbol will be secured and filings made with the appropriate information with the NASD and FINRA (Financial Industry Regulatory Authority) for approval to trade the shares.
- We engage one or more investor / public relations firms to promote the new publicly trading stock to new investors and to thousands of stock brokers who will encourage their clients to buy Holdco' s stock on the public exchange. This is a critical aspect for any public company.

Without good marketing of Holdco' s stock there will be little awareness of the Company and the value of the investment in the stock could lead to a very low volume in the stock trading and a thereby a loss of liquidity.

- We will assist Holdco for an initial 3 to 12 months to raise the necessary additional funding. All of the money raised will be transferred by Holdco to the Company in the foreign country for use in the operations of the business and the growth of the enterprise. The total amount raised will be based on the needs of the Company, its capital structure and its market value. Typically, the offering price for the new shares are at a modest discount to the anticipated opening price for the stock once trading begins.

AS PART OF THE SERVICES, WE ARRANGE FOR THE FOLLOWING TO MAKE A COMPLETE " GO PUBLIC " PACKAGE:

USF legal advisers will:

- Form all entities and complete all documents.
- Secure the services of a quality public/investor relations firm or firms. To assist our client companies we will ensure that these firms are paid in shares of Holdco stock and not cash. This will be a significant expense and one that is best paid in shares of stock to preserve working capital for operations. The contract will be for one year of services, with all shares for these services held in escrow and paid on a monthly basis.
- Secure a transfer agent.
- Obtain a CUSIP number for the new shares.
- Perform all legal and corporate work for business combination, SEC filings, State Filings.
- Draft and file all documents for filing with the SEC and various states and see the process through to completion. including amending and supplementing filings.
- Deliver, where necessary, legal opinions.
- Co-ordinate with auditors.
- Secure services of one or more market makers.
- Secure Blue Sky exemption in appropriate states, both for offering of shares for sale and for the purchase on a secondary market.
- Secure filing with Electronic Financial publications like Moody' s or S&P for State " Manual Exemption " to permit public market resales in approximately 40 States.
- Provide one year of SEC legal counsel.

LEGAL FEES.

These will be based on the size and requirements of the filings for the Company, but will minimally be \$30,000 and a small percentage of the stock in Holdco, this will cover expenses for state filing fees, transfer agent fees, listing fees, preparation of marketing materials for the PR firm, etc. Allshares will be freely tradable.

US-Float insists on instructing the appropriately qualified and experienced securities and corporate law firms within the USF network. All our legal advisers are rated at " AV " by Martindale Hubbell, the highest rating available to any firm.