Should my Company Go Public?

If your company needs additional capital, “going public” may be the right choice, but you should consider your options very carefully before doing so.

There are benefits and new obligations that come from raising capital through a public offering registered with your state securities department or the Securities and Exchange Commission. While the benefits are attractive, you must be ready to assume the new obligations associated with “going public.”

Benefits

• Your access to capital will increase because you can contact more potential investors;
• Your company will become more well known;
• You may be able to obtain financing more easily in the future if investor interest in your company grows enough to sustain a secondary trading market in your securities;
• Your company may be able to attract and retain more highly qualified personnel if it can offer stock options, bonuses or other incentives with a known market value;
• The image of your company may be improved.

New Obligations

• You must continue to keep shareholders informed about your company’s business operations, financial condition, management, costs incurred and new legal obligations;
• You may be liable if you do not fulfill these new legal obligations;
• You may lose some flexibility in managing your company’s affairs, particularly when shareholders must approve your actions;
• Your public offering will take time and money to accomplish.

What to Consider before “Going Public”

How much capital do we need to raise? The time and expense involved in “going public” can be prohibitive. Companies needing small amounts of capital should consider a private placement of its stock to a small, defined group of potential investors.
Who will offer our company’s securities to investors? Companies that “go public” need to hire an underwriter or brokerage firm to offer their securities to potential investors, or use their own officers or directors to accomplish the sales. Using an underwriter or brokerage firm will cost the company at least 20 percent of the amount of capital raised in a public offering. It can be difficult for officers and directors to handle the daily operations of the company while trying to raise capital.

Who are the company’s potential new investors? Companies that decide to “go public” need to determine if there is an ample base of new investors in the general public. Often times, companies already know who their potential investors might be – employees, family members or members of the community with an intimate knowledge of the company. If that is the case, a limited private placement offering may better suit the company’s needs and spare the company the time and expense of “going public.”

Worksheet

1. How much capital do you need to raise? ________________
2. How many new investors do you need? ________________
3. What is the minimum amount of investment you would accept from an investor? ________________
4. Will you need to advertise your offering to raise capital? ________________
5. Do you have any idea who your new investors will be? ________________

Should I “Go Public” or Consider a Private Placement?

• If your answer to question #2 above is greater than 25, you should consider “going public,” or seek a crowdfunding exemption. If your answer is less than 25, a private placement is an option to consider.
• If you divide your response to question #1 by your response to #3 and your answer is greater than 25, you should consider “going public,” or seek a crowdfunding exemption. If your answer is less than 25, a private placement is an option to consider.
• If your response to question #4 is yes, your options in raising capital are “going public,” crowdfunding, or only soliciting high net worth investors.
• If your response to question #5 is yes, a private placement might be an option to consider.

The above information is for demonstration purposes only. Before proceeding to raise any form of equity capital you should contact your attorney or tax adviser as well as the Montana Securities Department at (800) 332-6148.